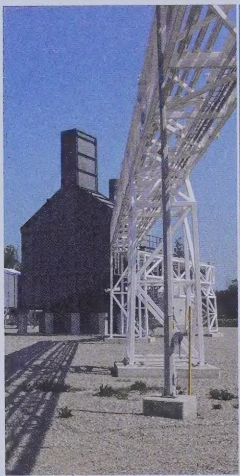
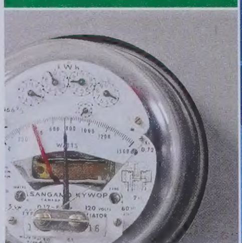
2004
Annual Report

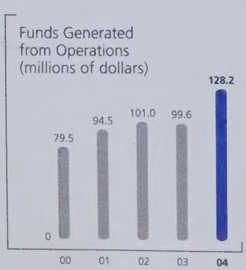
TRANSCANADA POWER, L.P.

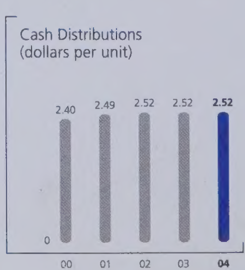
TransCanada Power, L.P.

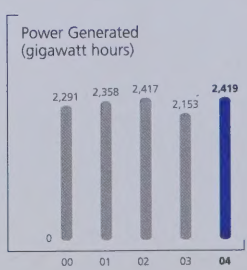


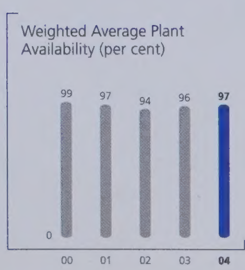
TransCanada Power, L.P. is a Canadian limited partnership that offers investors long-term stability and sustainable cash distributions as well as growth prospects. The Partnership owns 11 power plants in Canada and the United States with total generating capacity of 744 megawatts.











FINANCIAL HIGHLIGHTS

Year ended December 31	**2004**	2003
Power Generated (GWh)	**2,419**	2,153
Weighted Average Plant Availability	**97%**	96%
Net Income (millions of dollars)	**100.7**	64.4
Per Unit	**$ 2.25**	$ 1.64
Funds Generated from Operations (millions of dollars)	**128.2**	99.6
Per Unit	**$ 2.87**	$ 2.53
Cash Distributions (millions of dollars)	**114.4**	99.1
Per Unit	**$ 2.52**	$ 2.52
Capital Expenditures	**14.6**	8.2

POWER PLANT STATISTICS

	CAPACITY	LOCATION	CONFIGURATION	MAJOR EQUIPMENT*	PARTNERSHIP ACQUISITION	COMMERCIAL OPERATIONS	POWER SALES CONTRACT	FUEL PURCHASE CONTRACT
Calstock	35 MW	Located on a 55-acre site near Hearst, Ontario	Enhanced biomass wood waste generation	1 wood waste boiler; 35 MW steam turbine; 2 HRSGs	1998	2000	20-year term expiring in 2020	Wood waste supply agreements with local mills for 20-year terms expiring in 2019 and 1 mill expiring in 2012
Castleton	64 MW	Located on a 3-acre lease in Castleton-on-Hudson, New York	Combined-cycle gas-fired generation	40 MW gas turbine; 25 MW steam turbine; 1 HRSG	1999	1992	9-year term expiring in 2008	No fuel risk. Partnership pays a fixed demand charge under management agreement.
Curtis Palmer	60 MW	Located on the Hudson River near Corinth, New York	Hydroelectric impoundment and run-of-river	7 turbines	2004	1986***	42-year term expiring in 2027	Not applicable
Kapuskasing	40 MW	Located on a 14-acre site in Kapuskasing, Ontario	Enhanced combined cycle gas fired generation	25 MW gas turbine; 31 MW steam turbine; 3 HRSGs	1997	1997	20-year term expiring in 2017 or delivery of 10,000 GWh	Gas supply agreements for 20-year term expiring in 2016
Mamquam	50 MW	Located on the Mamquam River 50 km north of Vancouver, British Columbia	Hydroelectric run-of-river	2 turbines	2004	1996	30-year term expiring in 2027**	Not applicable
ManChief	300 MW	Located on a 10-acre site near Brush, Colorado	Simple-cycle gas fired generation	2 gas turbines	2004	2000	11-year term expiring in 2012	Not applicable as the the power buyer provides the fuel requirements
Nipigon	40 MW	Located on a 7-acre site near Nipigon, Ontario	Enhanced combined cycle gas fired generation	22 MW gas turbine; 18 MW steam turbine; 3 HRSGs	1997	1992	20-year term expiring in 2012	Gas supply agreements for 21-year terms expiring in 2010 and 2012 respectively
North Bay	40 MW	Located on a 16-acre site near North Bay, Ontario	Enhanced combined cycle gas fired generation	25 MW gas turbine; 31 MW steam turbine; 2 HRSGs	1997	1997	20-year term expiring in 2017	Gas supply agreement with 20-year term expiring in 2016
Queen Charlotte	6 MW	Located on Moresby Island, British Columbia	Hydroelectric reservoir-based	3 turbines	2004	1990	22-year term expiring in 2022	Not applicable
Tunis	43 MW	Located on an 11-acre site near Iroquois Falls, Ontario	Enhanced combined cycle gas fired generation	41 MW gas turbine; 19 MW steam turbine; 3 HRSGs	1998	1995	20-year term expiring in 2014	Gas supply agreements with 15-year term expiring in 2009
Williams Lake	66 MW	Located on a 31-acre site in Williams Lake, British Columbia	Biomass wood waste generation	1 wood waste boiler 66 MW steam turbine	1999	1993	25-year term expiring in 2018	Wood waste supply agreements with local mills for 25 years expiring in 2017 and 1 mill expiring in 2009. Cost recovery mechanism in power sales contract.

* HRSG is a heat recovery steam generator.
** with option exercisable in 2022 and every five years thereafter for power purchaser to buy the facility or extend the contract.
*** these facilities were repowered in 1986.

The four acquisitions in 2004 provided additional risk diversification and further contributed to the Partnership's goal of providing unitholders with long-term stability and sustainable cash distributions.

LETTER TO UNITHOLDERS

I am pleased to report that 2004 was a successful year for TransCanada Power, L.P.

Among our many accomplishments were:

- strong financial results, including a 13 per cent increase in funds generated from operations per unit;
- our eighth consecutive year of stable or increasing distributions to unitholders;
- acquisitions of four new power plants;
- completion of a number of related equity and debt financings; and
- another year of strong operating performance at all of our plants.

Acquisitions TransCanada Power, L.P. experienced solid growth in 2004. Consistent with our strategy of identifying and acquiring quality power plants that have long-term power purchase arrangements (PPAs) with investment grade counterparties, we invested $729 million to acquire four new power plants – Curtis Palmer in New York; ManChief in Colorado; and Mamquam and Queen Charlotte in British Columbia. The Curtis Palmer, Mamquam and Queen Charlotte hydroelectric plants bring an environmentally friendly power source to the Partnership that is low cost, very long term and sustainable. The ManChief plant and its accompanying PPAs provide another source of long-term cash flows in a new power market.

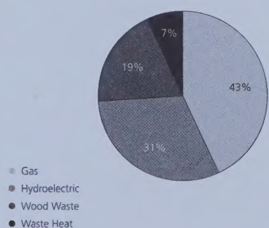
Risk Diversification Although TransCanada Power, L.P. is one of Canada's largest, publicly-traded power income funds, our intent in acquiring the four new plants was not simply to grow the Partnership. Firstly, these plants are financially accretive to cash flows on a per unit basis. Secondly, they further diversify the fuel-source, geographic and counterparty risk of the Partnership's existing portfolio of power plants. Such diversification has guided the Partnership's growth since its inception in 1997 and sets TransCanada Power, L.P. apart from its competitors. Lastly, these acquisitions helped us to continually fulfill our primary objective of providing unitholders with long-term stability and sustainable cash distributions.

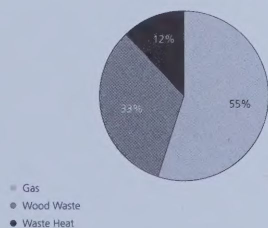
Focus on Stability and Sustainability This primary objective of providing unitholders with long-term stability and sustainable cash distributions has not changed since 1997. Although the 2004 acquisitions were accretive to existing per unit cash flows, the Board of Directors, in conjunction with Management, chose not to increase per unit distributions in 2004. Instead, we decided to retain increased cash flow within the Partnership to further support the long-term stability and sustainability of existing distribution levels. The Partnership used that retained cash, along with proceeds from long-term financings, to fully repay its operating line and fund capital expenditures during the year.

Operational Excellence On the operational front, I am pleased to report another year of strong performance at our plants in 2004. Generally, operational performance is measured by "plant availability", which is the percentage of time a plant is available to produce electricity and is not out of service for planned or unplanned maintenance. The Ontario, Williams Lake and Castleton plants continued to demonstrate high average availability of 97 per cent in 2004, while also maintaining a five-year average availability of 97 per cent. This strong track record is attributable to the quality of our assets and to an exceptional operations team at TransCanada Corporation (TransCanada), which is focused on operational excellence. This same approach will be applied to the four newly acquired plants. TransCanada has operated the Curtis Palmer and ManChief facilities since their acquisition by TransCanada in 2001 and 2002, respectively and, since then, the Curtis Palmer and ManChief plants have also achieved an availability percentage of 97 per cent.

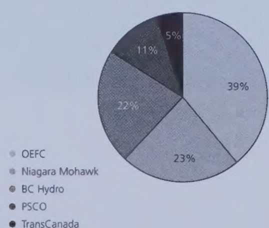
	2004	2003
Number of Plants	**11**	7
Weighted Average Remaining PPA Term (in years)	**15**	13

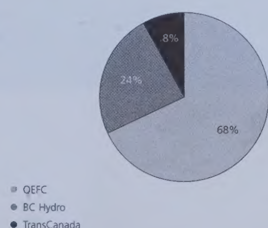
Per Cent of Operating Margin by Fuel Source





Per Cent of Operating Margin by Counterparty





Successfully Accessed Capital Markets The Partnership was very active in 2004 in the long-term debt and equity markets, raising $750 million through new long-term financings and creating financial flexibility for the future. In 2004, the Partnership:

- raised $287 million from the issuance of 8.1 million new units through a subscription receipts offering;
- borrowed US$190 million through the issuance of U.S. dollar-denominated unsecured notes;
- borrowed $210 million through a Canadian dollar credit facility;
- established a $750-million shelf facility, which provides the flexibility to more quickly and efficiently issue equity or unsecured debt securities in the future; and
- established a $50-million operating line, which was used to repay and terminate the previous operating line with TransCanada.

2005 and Beyond In 2004, we continued to implement our strategy of acquiring and operating high-quality power assets that sell electricity to investment grade counterparties through long-term PPAs. As we look to 2005, the Partnership will remain focused on this strategy, capturing acquisition and other opportunities as they arise. We look forward to a promising future, and to providing long-term stability and sustainable cash distributions to unitholders in 2005 and beyond. Our strategic focus, excellent operational team, strong balance sheet and quality assets are the factors that have solidified TransCanada Power, L.P. as one of the premier power income funds in Canada.

On behalf of the General Partner,

Sean McMaster

Sean D. McMaster President

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis, dated March 3, 2005, should be read in conjunction with the accompanying audited Consolidated Financial Statements of TransCanada Power, L.P. (the Partnership) and the notes thereto for the year ended December 31, 2004. All amounts are in Canadian dollars unless otherwise indicated.

TransCanada Power Services Ltd., the General Partner of the Partnership, is an indirect wholly-owned subsidiary of TransCanada Corporation (TransCanada, collectively with its subsidiaries) and has responsibility for overseeing the management of the Partnership. The Board of Directors of the General Partner declares the cash distributions to the Partnership's unitholders. The General Partner has engaged certain other TransCanada subsidiaries (collectively, the Manager or Management) to perform management and administrative services on behalf of the Partnership and to operate and maintain the power plants pursuant to management and operations agreements.

In 2004, the Partnership acquired four plants, one in New York, one in Colorado and two in British Columbia. To fund these acquisitions, the Partnership used a combination of temporary short-term debt, U.S. and Canadian long-term debt and a subscription receipts offering, which was later converted into limited partnership units. Three of the acquired plants are hydroelectric facilities and one is a natural gas-fired plant.

The Partnership now owns 11 power plants and its total generating capacity has more than doubled to 744 megawatts (MW) from 328 MW. With the addition of the four plants, the Partnership increased the fuel, counterparty and geographic diversity of its portfolio of assets.

The Curtis Palmer plant, which was acquired in April 2004, consists of two separate hydroelectric facilities located on the Hudson River in New York with combined generating capacity of 60 MW. All of the electricity generated at these facilities is sold at predetermined prices under a long-term power purchase arrangement (PPA) with Niagara Mohawk Power Corporation (Niagara Mohawk). The PPA is expected to expire in 2027.

The ManChief power plant, which also was acquired in April 2004, is a simple-cycle, natural gas-fired power generating facility located near Brush, Colorado, with a generating capacity of 300 MW. The plant operates as a peaking facility, generating power primarily during peak power consumption periods. The entire generating capacity of the ManChief plant has been contracted to Public Service Company of Colorado (PSCO) under two separate tolling agreements that expire in 2012.

The Mamquam hydroelectric facility, acquired in July 2004, is a two-unit, 50 MW, run-of-river plant located on the Mamquam River approximately 50 kilometres north of Vancouver, British Columbia. The plant is expected to generate approximately 250 gigawatt hours (GWh) of electricity per year. All energy produced at the Mamquam plant is contracted to British Columbia Hydro and Power Authority (BC Hydro) until 2027, at fixed prices per megawatt hour (MWh), plus recovery of certain operating costs adjusted for inflation. BC Hydro has an option, exercisable in 2022 and every five years thereafter, to either purchase the facility at its then depreciated replacement cost or to extend the contract.

The Queen Charlotte hydroelectric facility, which also was acquired in July 2004, is a three-unit, 6 MW reservoir-based station located on Moresby Island in British Columbia. It serves the local community of Sandspit and the surrounding area. Most of the energy produced at the station is contracted to BC Hydro until 2022, at fixed prices per MWh, plus recovery of certain operating costs adjusted for inflation.

Each of the Partnership's 11 power plants has long-term PPAs. These PPAs, combined with long-term fuel and operating contracts, reduce the financial risk to unitholders, minimize commodity price risk and increase the stability and security of long-term cash flows.

Output from the Ontario power plants is sold to Ontario Electricity Financial Corporation (OEFC) with remaining terms ranging from eight to 16 years. Output from the Williams Lake, Mamquam and Queen Charlotte power plants is sold to BC Hydro under contracts with remaining terms ranging from 14 to 23 years. Output from the Castleton and Curtis Palmer plants in New York is sold to TransCanada Power Marketing Ltd. (TCPM), an indirect wholly-owned subsidiary of TransCanada, and Niagara Mohawk, respectively. The contract with TCPM expires in 2008, and the contract with Niagara Mohawk has a remaining term of 23 years. Output from the ManChief plant is sold to PSCO under contracts with remaining terms of eight years.

The Partnership's power plants use natural gas, waste heat, wood waste, water flows or a combination of these fuel sources to produce electricity.

Each of the Ontario plants and Williams Lake plant has long-term fuel supply contracts. Curtis Palmer, Mamquam and Queen Charlotte, as hydroelectric plants, do not have fuel costs. The power buyer under the ManChief PPA provides all the fuel requirements for that plant.

Power Generation

	MW	Fuel Source
Nipigon (1)	40	Natural gas / waste heat
North Bay (1)	40	Natural gas / waste heat
Kapuskasing (1)	40	Natural gas / waste heat
Tunis (1)	43	Natural gas / waste heat
Calstock (1) (2)	35	Wood waste / waste heat
Williams Lake (2)	66	Wood waste
Mamquam (3)	50	Water flows
Queen Charlotte (3)	6	Water flows
Curtis Palmer (3)	60	Water flows
ManChief (4)	300	Natural gas
Castleton (5)	64	Natural gas
	744	

(1) The Ontario natural gas-fired plants use a process called enhanced combined-cycle generation that uses both natural gas and waste heat as fuel sources. These plants and the Calstock plant obtain waste heat fuel from the adjacent TransCanada Canadian Mainline gas compressor stations.

(2) The Williams Lake and Calstock plants use wood waste from local mills as a source of fuel thereby increasing both environmental and economic benefits.

(3) The Curtis Palmer, Mamquam and Queen Charlotte hydroelectric facilities rely on water flows to produce electricity which is a stable source of low cost, environmentally friendly power production.

(4) The ManChief plant is a simple-cycle, natural gas-fired generating facility which is dispatched by the power buyer during peak demand periods.

(5) The Castleton plant is a combined-cycle plant as it uses both natural gas and steam to generate electricity.

The Partnership's strategic plan continues to be focused on providing stable and sustainable distributions to unitholders. The 2004 acquisitions provide additional sources of cash flows that will be used primarily to fund maintenance capital expenditures and further enhance the stability and sustainability of cash distributions into the future. The Partnership will also seek to grow its asset base, both by expanding capacity at existing plants and pursuing acquisition opportunities that are accretive to cash flows on a per-unit basis.

Consolidated Results-at-a-Glance

Year ended December 31 (millions of dollars except per unit amounts)	**2004**	2003	2002
Revenues			
Ontario	**126.6**	126.2	118.4
Williams Lake	**35.9**	35.5	37.5
Mamquam and Queen Charlotte (1)	**4.1**		
Curtis Palmer (1)	**31.2**		
ManChief (1)	**18.4**		
Castleton	**15.3**	16.3	18.0
	231.5	178.0	173.9
Operating Margin			
Ontario	**74.4**	75.0	69.7
Williams Lake	**23.9**	25.4	28.0
Mamquam and Queen Charlotte (1)	**3.4**		
Curtis Palmer (1)	**26.9**		
ManChief (1)	**13.0**		
Castleton	**8.2**	8.8	9.9
	149.8	109.2	107.6
Net Income	**100.7**	64.4	64.1
Per unit	**$ 2.25**	$ 1.64	$ 1.63
Funds Generated From Operations	**128.2**	99.6	101.0
Per unit	**$ 2.87**	$ 2.53	$ 2.57
Cash Distributions	**114.4**	99.1	99.1
Per unit	**$ 2.52**	$ 2.52	$ 2.52
Capital Expenditures	**14.6**	8.2	5.4
Total Assets	**1,346.4**	604.7	650.5
Long-Term Debt	**445.2**	–	–
Weighted Average Units Outstanding (millions)	**44.7**	39.3	39.3

(1) From the dates of acquisition: Curtis Palmer and ManChief – April 30, 2004; Mamquam and Queen Charlotte – July 23, 2004.

The Consolidated Financial Statements of the Partnership for the year ended December 31, 2004 include eight months of results for the Curtis Palmer and ManChief plants and approximately five months of results for the Mamquam and Queen Charlotte plants. Revenues of $231.5 million for the year ended December 31, 2004 were $53.5 million and $57.6 million higher than 2003 and 2002, respectively. The significant increase in 2004 was due to the acquisitions of the Curtis Palmer, ManChief, Mamquam and Queen Charlotte plants. These newly acquired plants contributed revenues of $53.7 million in 2004.

Revenues for the other plants for the year ended December 31, 2004 were comparable to revenues in 2003. Ontario plant revenues for the year ended December 31, 2003 were $7.8 million higher than in 2002, primarily due to increased curtailment opportunities. The slight decline in Williams Lake revenues from 2002 to 2003 primarily reflects a lower market-based excess energy price (2003 – $23 per MWh; 2002 – $112 per MWh). The excess energy price in 2004 was $36 per MWh. The decline in Castleton revenues from 2002 through 2004 reflects the impact of a weaker U.S. dollar.

The Partnership reported net income of $100.7 million or $2.25 per unit for the year ended December 31, 2004, compared to $64.4 million or $1.64 per unit in 2003 and $64.1 million or $1.63 per unit in 2002. The $36.3 million increase in net income in 2004 compared to 2003 was primarily due to $31.9 million of unrealized foreign exchange gains related to U.S. dollar-denominated debt issued by the Partnership in 2004.

In addition, the 2004 net income reflects the results of the plants acquired in 2004, from the respective dates of acquisition, net of related financing costs.

Funds generated from operations of $128.2 million or $2.87 per unit for the year ended December 31, 2004 were $28.6 million ($0.34 per unit) and $27.2 million ($0.30 per unit) higher than in 2003 and 2002, respectively. These increases were primarily due to the acquisitions in 2004.

Cash distributions for the year ended December 31, 2004 were $114.4 million compared to $99.1 million in 2003 and 2002 however, on a per unit basis, remained stable at $2.52 per unit over the three years. The $15.3 million increase in cash distributions in 2004 was due to the issuance of 8.1 million limited partnership units in April 2004.

Non-GAAP Measures

The Partnership uses operating margin and funds generated from operations per unit as performance measures with respect to the plants and the Partnership. These terms are not defined financial measures according to Canadian generally accepted accounting principles (GAAP) and they do not have standardized meanings prescribed by GAAP. Therefore, these measures may not be comparable to similar measures presented by other enterprises.

Funds generated from operations per unit equals funds generated from operations divided by the weighted average number of units outstanding for the respective periods. Operating margin equals revenue less cost of fuel, operating and maintenance expense and other plant operating expenses:

Year ended December 31 (millions of dollars)	**2004**	2003
Operating Margin	**149.8**	109.2
Other Costs	**45.2**	44.5
Net Income Before Income Tax	**104.6**	64.7

Revenues and Plant Output

Year ended December 31	2004		2003	
	GWh	**(millions of dollars)**	GWh	(millions of dollars)
Ontario				
Power	**1,372**	**115.2**	1,395	110.9
Enhancements		**11.4**		15.3
	1,372	**126.6**	1,395	126.2
Williams Lake				
Firm energy	**445**	**32.0**	401	31.4
Excess energy / other	**110**	**3.9**	123	4.1
	555	**35.9**	524	35.5
Mamquam and Queen Charlotte (1)	**67**	**4.1**		
Curtis Palmer (1)	**198**	**31.2**		
ManChief (1)	**42**	**18.4**		
Castleton	**185**	**15.3**	234	16.3
	2,419	**231.5**	2,153	178.0
Weighted Average Plant Availability (2)				
Ontario		**98%**		98%
Williams Lake		**96%**		89%
Mamquam and Queen Charlotte (1) (3)		**76%**		
Curtis Palmer (1)		**94%**		
ManChief (1)		**100%**		
Castleton		**97%**		96%

(1) From the dates of acquisition: Curtis Palmer and ManChief – April 30, 2004; Mamquam and Queen Charlotte – July 23, 2004.

(2) Plant availability represents the percentage of time in the year that the plant is available to generate power, whether actually running or not, and is reduced by planned and unplanned outages.

(3) The 50 MW Mamquam facility was unavailable for part of the fourth quarter due to a planned maintenance outage.

Partnership revenues of $231.5 million for the year ended December 31, 2004 increased by $53.5 million compared to 2003. The increase in revenues was due to the acquisitions of the Curtis Palmer, ManChief, Mamquam and Queen Charlotte plants.

Ontario Plants All of the power output from the Ontario plants is sold to OEFC under long-term PPAs. Remaining terms of these contracts range from eight to 16 years. As a result of built-in annual escalators in these contracts, power revenues of $115.2 million for the year ended December 31, 2004 were $4.3 million higher than 2003. Offsetting this increase in power revenues was a $3.9 million decrease in enhancement revenues. Enhancement revenues reflect decisions by the Manager to voluntarily curtail power production in favour of selling the unused natural gas at prevailing market prices. This is normally done in off-peak hours when contracted power prices are lower.

Power output from the Ontario plants for the year ended December 31, 2004 was 23 GWh lower year-over-year although power revenues were higher. Reduced throughput on TransCanada's Canadian Mainline in 2003 resulted in a decrease in the Partnership's waste heat fuel from the adjacent TransCanada compressor stations. In 2004, the Partnership entered into a contract with TransCanada to optimize waste heat throughput to the Partnership's Ontario plants and, as a result, the decrease in waste heat availability was

minimized. The Partnership reimburses TransCanada's Canadian Mainline for any incremental fuel gas, maintenance and administrative costs incurred as a result of this optimization.

In 2004, weighted average plant availability for the Ontario plants was 98 per cent, which was consistent with 2003.

Williams Lake Revenues at the Williams Lake plant consist of firm energy sales, including cost recovery components, and excess energy sales under the power sales contract with BC Hydro that expires in 2018. The amount of firm energy sold to BC Hydro on an annual basis is fixed at 445 GWh, except in years when major overhauls are performed. Major overhauls are performed approximately every five years, with the most recent overhaul occurring in 2003. Revenues remain constant in major overhaul years but the firm energy commitment to BC Hydro is reduced to 401 GWh. Cost recovery components are escalated annually for inflation.

For the year ended December 31, 2004, firm energy revenues of $32.0 million were slightly higher than the $31.4 million reported in 2003. The increase in firm revenues was primarily due to increased fuel cost recoveries in 2004. Excess energy and other revenues for the year ended December 31, 2004 were $3.9 million, compared to $4.1 million in 2003.

Mamquam and Queen Charlotte The Mamquam and Queen Charlotte plants, which were acquired in July 2004, have long-term PPAs with BC Hydro that expire in 2027 and 2022, respectively. The PPAs consist of a fixed energy component per MWh up to certain output thresholds, an operations and maintenance component adjusted annually for inflation and a reimbursable cost component. All of the electricity generated at the Mamquam plant and most of the electricity generated at the Queen Charlotte plant is sold to BC Hydro. A small amount of electricity from the Queen Charlotte plant is sold to two local industrial customers.

These plants contributed $4.1 million in revenues during the period of ownership in 2004.

Curtis Palmer Output from the Curtis Palmer plant, which was acquired in April 2004, is sold to Niagara Mohawk under a PPA that expires in 2027 or the date of delivery of a cumulative 10,000 GWh of electricity to Niagara Mohawk. At December 31, 2004, there were 2,980 GWh delivered under the contract. The PPA sets out eleven pricing blocks over the contract term for electricity sold to Niagara Mohawk. The price per MWh is dependent upon the cumulative GWh of electricity delivered and the price increases by approximately 34 per cent from contract inception up to a cumulative total of 3,344 GWh delivered (estimated to occur in 2006), at which point the price drops by approximately 33 per cent. Thereafter, the price increases on average by approximately ten per cent with each additional 1,000 GWh of electricity delivered over the remaining term of the PPA. The Curtis Palmer plant contributed $31.2 million in revenues during the period of ownership in 2004.

ManChief The ManChief plant, which was acquired in April 2004, has two separate tolling agreements covering the sale of capacity and incremental energy to PSCO. Both agreements expire in 2012. PSCO controls the dispatch of electricity from the ManChief plant, including start-ups, shut-downs and generation loading levels. Capacity payments are generally unaffected by output levels, but vary depending upon changes in plant availability. PSCO pays for incremental energy generated at the plant based upon a fixed price per MWh, escalated annually for inflation. PSCO also pays for turbine start-up fees, heat rate adjustments and gas transportation charges. For the period of ownership in 2004, the ManChief plant contributed $18.4 million of revenue.

Castleton Revenues at the Castleton plant, which are adjusted annually for contractual increases, are earned through fixed monthly capacity payments from TCPM in return for providing the power plant's entire operating capacity. The PPA with TCPM expires in 2008. As a result, Castleton revenues are generally unaffected by the amount of electricity generated at the plant, which was down in 2004 compared to 2003 due to reduced dispatch by TCPM.

Revenues of $15.3 million for the year ended December 31, 2004 were $1.0 million lower than 2003 due to the impact of a weaker U.S. dollar.

Cost of Fuel

Year ended December 31 (millions of dollars)	2004	2003
Ontario		
Natural gas	**36.3**	35.9
Waste heat	**0.7**	0.5
Wood waste	**0.4**	0.5
	37.4	36.9
Williams Lake		
Wood waste	**3.4**	2.7
ManChief		
Transportation [1]	**0.3**	
Castleton		
Natural gas	**2.4**	2.5
	43.5	42.1

(1) Represents gas transportation charges from the date of acquisition of April 30, 2004.

Cost of fuel, which is the Partnership's most significant cost of operations, includes the fuel commodity price and transportation costs. Virtually all of the Partnership's fuel costs for the Ontario and Williams Lake plants are under fixed price, long-term supply agreements with built-in price escalators that generally correspond to price increases in the PPAs.

For the Castleton plant, the Partnership pays a fixed demand charge, which is escalated annually by inflation, under a management agreement, therefore there is no fuel price risk. Curtis Palmer, Mamquam and Queen Charlotte, being hydroelectric plants, do not have any fuel costs. The power buyer under the ManChief PPA provides all of the fuel requirements, but the Partnership is obligated to pay for demand charges associated with the transportation of natural gas to the facility.

Fuel costs at the Ontario plants for the year ended December 31, 2004 were $37.4 million, compared to $36.9 million in 2003. The increase of $0.5 million was primarily due to annual price increases in the fuel contracts.

Fuel costs at the Williams Lake plant increased $0.7 million to $3.4 million for the year ended December 31, 2004 due to wood waste being sourced from mills further away, as well as paying a commodity charge on higher grade wood waste. The variability in fuel costs for the Williams Lake plant has only limited impact on the Partnership's earnings and cash flow because the majority of fuel costs related to firm energy production are recovered through cost recovery mechanisms built into the PPA with BC Hydro.

Operating and Maintenance Expenses

Year ended December 31 (millions of dollars)	**2004**	2003
Ontario	**12.8**	12.4
Williams Lake	**5.4**	4.6
Mamquam and Queen Charlotte [(1)]	**0.6**	
Curtis Palmer [(1)]	**0.8**	
ManChief [(1)]	**2.7**	
Castleton	**3.2**	3.4
	25.5	20.4

(1) From the dates of acquisition: Curtis Palmer and ManChief – April 30, 2004; Mamquam and Queen Charlotte – July 23, 2004.

Operating and maintenance expenses are based on fixed fees, adjusted annually for inflation and are payable to the Manager for the operation and routine maintenance of the plants. In 2004, the Manager began operating and maintaining the Curtis Palmer, ManChief, Mamquam and Queen Charlotte plants, which accounts for $4.1 million of the year-over-year increase in these expenses. In 2004, the responsibility for certain expenses at the Williams Lake plant, which were previously paid for directly by the Partnership, was transferred to the Manager, and the Williams Lake operating and maintenance fee was increased on a prospective basis.

Other Plant Operating Expenses

Year ended December 31 (millions of dollars)	**2004**	2003
Property taxes	**7.2**	2.7
Insurance	**4.0**	2.7
Major maintenance	**1.5**	0.9
	12.7	6.3

Other plant operating expenses of $12.7 million for the year ended December 31, 2004 increased by $6.4 million compared to 2003. The increase was primarily due to insurance costs and property taxes attributable to the plants that were acquired in 2004.

Major maintenance expense for the year ended December 31, 2004 increased by $0.6 million due to an increased scope of work at the Williams Lake plant during the spring and fall shutdowns.

Depreciation and Amortization

Year ended December 31 (millions of dollars)	**2004**	2003
Plant, property and equipment	**40.6**	36.1
Power purchase arrangements	**14.4**	–
	55.0	36.1

Depreciation and amortization expense for the year ended December 31, 2004 was $55.0 million, compared to $36.1 million in 2003. Most of the increase in depreciation and amortization expense was due to the plants that were acquired in 2004.

Management and Administration

Year ended December 31 (millions of dollars)	**2004**	2003
Base fees	**1.1**	1.0
Incentive fees	**1.9**	1.7
Enhancement fees	**1.3**	1.8
General and administrative costs	**2.6**	1.0
	6.9	5.5

Management and administration costs, which consist of fees paid to the Manager and general and administrative costs, were $6.9 million for the year ended December 31, 2004, compared to $5.5 million in 2003. Base fees, which are equal to one per cent of the Partnership's annual distributable cash, and incentive fees, which are based on the level of cash distributions to unitholders as compared to pre-determined thresholds, increased slightly, reflecting higher aggregate distributions in 2004 as a result of new Partnership units issued during the year. Enhancement fees are paid to the Manager for successfully capturing opportunities on behalf of the Partnership that either increase revenues or reduce costs. In 2004, the Manager had less opportunity to curtail off-peak power production at certain Ontario plants and, as a result, enhancement fees decreased by $0.5 million. General and administrative costs of $2.6 million increased by $1.6 million compared to 2003 due to higher costs as a result of the acquisitions in 2004.

Foreign Exchange (Gains)/Losses

Year ended December 31 (millions of dollars)	**2004**	2003
Realized foreign exchange losses	**1.1**	1.7
Unrealized foreign exchange gains on U.S. dollar-denominated debt	**(31.9)**	–
	(30.8)	1.7

The Partnership's foreign exchange gains and losses primarily result from the translation of its U.S. operations. In 2004, the Partnership expanded its U.S. operations with the acquisition of the Curtis Palmer and ManChief facilities. The realized foreign exchange loss of $1.1 million for the year ended December 31, 2004 resulted from the impact of a weakening U.S. dollar on the translation of the Partnership's U.S. dollar net monetary assets. The unrealized foreign exchange gain of $31.9 million for the year ended December 31, 2004 resulted from the issuance of U.S. dollar-denominated debt in the second quarter of 2004 and the subsequent weakening of the U.S. dollar.

Financial Charges and Other

Year ended December 31 (millions of dollars)	**2004**	2003
Interest on long-term debt	**8.2**	–
Interest on short-term debt	**3.9**	1.2
Other	**2.0**	–
	14.1	1.2

Financial charges and other expenses for the year ended December 31, 2004 were $14.1 million compared to $1.2 million in 2003. Although the Partnership initially financed part of its acquisitions in 2004 with temporary debt financing arrangements, these were ultimately replaced by Canadian and U.S. dollar long-term debt.

Interest on long-term debt of $8.2 million included interest on the US$190.0 million long-term debt issued in June 2004, interest on the $210.0 million placed in November 2004 and interest on the $6.5 million debt assumed on the acquisition of the Mamquam and Queen Charlotte facilities. Interest of $3.9 million on short-term debt included interest on the Partnership's operating line, acquisition facilities and promissory notes. Other financial charges of $2.0 million primarily consist of amortization of deferred debt issue costs and other income and expenses.

LIQUIDITY AND CAPITAL RESOURCES

Cash Distributions Cash distributions for the year ended December 31, 2004 were $114.4 million or $2.52 per unit compared to $99.1 million or $2.52 per unit in 2003. Although 2004 cash distributions of $2.52 per unit remained constant with 2003, the total cash distributed increased by $15.3 million due to the increased number of units outstanding. Cash distributions for the year ended December 31, 2004 were based on funds generated from operations of $128.2 million less a cash reserve of $13.8 million compared to funds generated from operations of $99.6 million less a cash reserve of $0.5 million in 2003. On an annual basis, the Partnership uses undistributed cash to satisfy current and anticipated obligations, which will include all or a portion of capital expenditures.

The Partnership had 47,421,982 units issued and outstanding as at March 3, 2005.

The Partnership makes quarterly cash distributions, a portion of which is taxable to unitholders in the year received:

Year ended December 31 (per unit)	Cash Distribution	Taxable Amount
2003	$ 2.52	$ 1.26
2004	**$ 2.52**	**$ 1.29**

Capital Expenditures Capital expenditures for the power plants are primarily comprised of maintenance capital and additions to, or replacements of, capital assets required to maintain or increase the power plants' current output capacity. Major overhauls are performed periodically at each of the plants depending on the number of operating hours and type of equipment. Major overhauls at the Ontario plants are generally performed every 24,000 operating hours or approximately every three years for hot section refurbishments on the gas turbines and approximately every 48,000 operating hours or every six years for turbine overhauls. Also, it is expected that the heat recovery steam generators will require re-tubing approximately once every 20 years. A major overhaul is completed at the Williams Lake plant approximately every five years with the most recent having occurred in 2003. Major overhauls are performed at the Castleton plant approximately every 24,000 hours.

Major overhauls for the ManChief plant are expected to be performed approximately every 24,000 operating hours or approximately every five years, given the peaking operation of the plant. Inspections will be performed at the plant on a more regular basis.

Maintenance capital for the hydroelectric facilities is expected to be at longer intervals and will be condition based.

Capital expenditures for the year ended December 31, 2004 were $14.6 million which included $6.0 million related to parts purchased for an overhaul that is scheduled for completion at the ManChief plant in 2006. The remaining capital expenditures consisted of plant upgrades, reliability and safety controls, maintenance capital and equipment overhauls at each of the plants.

Financing Activities As at December 31, 2004, the Partnership had $445.2 million of long-term debt outstanding (2003 – nil), comprised of both Canadian and U.S. dollar-denominated obligations. The Partnership had no balance outstanding on its operating line as at December 31, 2004 compared to $26.0 million at the close of 2003. The Partnership's debt to total capitalization (debt plus equity) ratio as at December 31, 2004 increased to 35 per cent from 5 per cent at the end of 2003.

In April 2004, the Partnership issued 8,110,000 subscription receipts at a price of $37.00 per unit for net proceeds of $286.9 million. TransCanada purchased 540,000 subscription receipts for $20.0 million. The subscription receipts were converted to limited partnership units upon the acquisition of the Curtis Palmer and ManChief facilities on April 30, 2004 and TransCanada's partnership interest was reduced from 35.6 per cent to 30.6 per cent.

In addition to the subscription receipts offering, the acquisition of the Curtis Palmer and ManChief facilities was also financed with two promissory notes issued to TransCanada for US$192.6 million which were repaid in the second quarter.

In May 2004, the Partnership entered into a $500 million, unsecured, 364-day renewable acquisition facility with two Canadian chartered banks and borrowed US$194.0 million to repay the outstanding promissory notes issued to TransCanada.

In June 2004, Curtis Palmer Inc., an indirect wholly-owned subsidiary of the Partnership, issued US$190.0 million of 5.9 per cent senior notes, due July 2014. The notes have not been and will not be registered under the U.S. Securities Act of 1933. The proceeds from this debt issue, together with cash on hand, were used to repay the outstanding US$194.0 million of borrowings under the acquisition facility.

In July 2004, the Partnership funded the acquisition of the Mamquam and Queen Charlotte facilities with a second drawing of $188.0 million under the $500 million acquisition facility. The Partnership also assumed $6.5 million of long-term debt as part of this acquisition. The Partnership filed a Universal Shelf Prospectus (Shelf Prospectus) in July 2004 to issue equity or unsecured debt securities up to an aggregate of $750 million in Canada. The Shelf Prospectus is effective for a 25 month period.

In August 2004, the Partnership entered into a $50.0 million extendible, revolving, term operating line with a Canadian chartered bank to be used for general Partnership purposes. The Partnership then used this third party operating line to repay the operating line with TransCanada that was then terminated.

In November 2004, the Partnership arranged $210.0 million of five-year, non amortizing debt through a credit facility with a syndicate of Canadian banks. The proceeds of this credit facility were used to repay the outstanding balance of $188.0 million on the $500 million acquisition facility. The remaining $22.0 million was used to reduce the balance on the Partnership's third party operating line. The effective interest rate after including forward hedging contracts is approximately 5.2 per cent.

Subsequent to the acquisitions in 2004, Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS) reaffirmed debt ratings of A- and A (low), respectively, on the Partnership's senior notes and have reaffirmed or revised stability ratings of SR-1 and STA-1 (low), respectively. The SR-1 rating is S&P's highest stability rating and the STA-1 (low) rating is one of DBRS's highest stability ratings, which range from STA-7 (low) to STA-1 (high).

FOREIGN EXCHANGE AND INTEREST RATE RISK MANAGEMENT

The Partnership manages the foreign exchange risk of its future anticipated U.S. dollar-denominated cash flows from its U.S. plants through the use of forward foreign exchange contracts for periods up to seven years. As at December 31, 2004, US$88 million of future cash flows had been hedged from 2005 to 2009 at a weighted average exchange rate of 1.35.

The Partnership entered into forward interest rate swaps in the third quarter of 2004 to fix future anticipated interest payments on Canadian long-term debt which was subsequently issued in the fourth quarter to refinance short-term debt obligations. As at December 31, 2004, five years of quarterly interest payments on $200 million of principal amount of debt have been hedged resulting in an effective interest rate after including the hedging contracts of approximately 5.2 per cent.

TRANSACTIONS WITH RELATED PARTIES

Year ended December 31 (millions of dollars)	**2004**	2003
Revenues		
Castleton – capacity payments	**15.3**	16.3
Ontario – enhancement revenues	**11.4**	15.3
Ontario – Calstock guarantee fee	**3.1**	2.1
	29.8	33.7
Cost of Fuel		
Ontario – gas fuel supply	**20.9**	18.0
Ontario – gas diversion sales	**(10.3)**	(7.8)
Ontario – gas transportation	**12.0**	12.4
Ontario – waste heat	**0.7**	0.5
Castleton – gas demand charge	**2.4**	2.5
	25.7	25.6
Operating and Maintenance Expenses	**25.5**	20.4
Management and Administration		
Base fees	**1.1**	1.0
Incentive fees	**1.9**	1.7
Enhancement fees	**1.3**	1.8
	4.3	4.5
Acquisition Fees	**8.7**	–
Interest Expense		
Operating line	**0.9**	1.2
Promissory notes	**0.7**	–
	1.6	1.2

In operating the Partnership's 11 power plants, the Partnership and TransCanada engage in several related-party transactions. These transactions are based on contracts and many of the fees escalate by inflation. The above table, excluding acquisition fees, summarizes the amounts included in the calculation of net income for the years ended December 31, 2004 and 2003 (see Note 15 to the Consolidated Financial Statements for further details).

CONTRACTUAL OBLIGATIONS

As at December 31, 2004, the Partnership's future purchase obligations were approximately as follows:

Purchase Obligations

Year ended December 31 (million of dollars)	2005	2006	2007	2008	2009	2010+
Gas purchase contracts (1)	32.5	34.5	38.6	43.8	45.9	345.8
Gas transportation contracts (2)	12.9	13.7	14.5	15.4	16.3	136.8
Waste heat contracts (3)	0.8	0.8	0.8	0.8	0.8	6.2
Operating and maintenance fees (4)	26.6	27.2	27.7	28.3	25.3	228.5
Long-term debt	0.8	0.9	1.0	1.1	211.3	230.1

(1) The gas purchase contracts have fixed and variable components. The variable components are based on estimates subject to variability in plant production. These contracts have expiry dates ranging from 2010 to 2016 with built-in escalators.

(2) The gas transportation contracts are based on estimates subject to changes in regulated rates for transportation and have expiry dates ranging from 2010 to 2016.

(3) Waste heat contracts have expiry dates ranging from 2014 to 2017. Prices are escalated yearly by the prior year's Consumer Price Index.

(4) The operating and maintenance contracts are based on fixed fees escalated annually by inflation and have expiry terms ranging from 2008 to 2018.

SIGNIFICANT ACCOUNTING ESTIMATES

Since a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of the Partnership's Consolidated Financial Statements requires the use of estimates and assumptions that have been made using careful judgement. The Partnership's most significant accounting estimate relates to its calculation of depreciation and amortization expense, although these non-cash expenses do not impact funds generated from operations or cash distributions.

The Partnership depreciates its power generation plant and equipment, less estimated residual value, on a straight-line basis over its remaining life. Other equipment, which includes the cost of major overhauls, is capitalized and depreciated over estimated service lives of three to 10 years. PPAs are amortized on a straight-line basis over the remaining lives of the contracts.

On April 29, 2004, unitholders approved an amendment to the terms of the Partnership Agreement to remove the Partnership's obligation to redeem, in 2017, all of the units then outstanding not held directly by TransCanada. As a result of removing this redemption obligation, the Partnership prospectively changed its depreciation policy to depreciate power generation plant and equipment over its remaining useful life, whereas the previous policy was to depreciate these assets over their remaining life to 2017.

In addition, as a result of removing the redemption obligation in 2017, the Partnership recorded an asset retirement obligation for the gas-fired and wood waste power plants. No amount has been recorded for asset retirement obligations relating to the hydroelectric power plants because it is not possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of the retirements.

OUTLOOK

The Partnership's primary goal is to provide unitholders with long-term stability and sustainable cash distributions. The Partnership expects this will be accomplished by an ongoing commitment to operational excellence, capitalizing on further earnings enhancements where possible, as well as growing the Partnership through plant expansions and acquisitions of new generating assets. The Partnership will focus its disciplined acquisition strategy on the Canadian and U.S. markets, including targeting the acquisition of additional TransCanada plants and third party facilities.

The Partnership's results for 2005 will reflect a full year of operations from the Curtis Palmer, ManChief, Mamquam and Queen Charlotte facilities. Factors that can cause fluctuations in funds generated from operations either positively or negatively are as follows:

- Water flows at the Partnership's hydroelectric facilities directly affect output and revenues;

- Fluctuations in throughput on TransCanada's Mainline will affect the amount of waste heat fuel supplied to the Partnership;
- Enhancement transactions are directly related to the price of natural gas; and
- Fluctuations in the U.S. dollar will impact the Canadian dollar translation of the U.S. operations.

In addition, net income can be significantly impacted by the unrealized foreign exchange gains and losses resulting from the effects of a weakening or strengthening U.S. dollar on the translation of the Partnership's U.S. dollar-denominated debt. Other factors that could impact the Partnership's net income or funds generated from operations for 2005 include acquisitions, significant unplanned outages, industry reform, fuel cost increases or other unexpected events.

Ontario Regulation 397/01 sets limits for airborne emissions of nitric oxide and sulphur dioxide from Ontario's electricity generators that emit more than trace amounts of nitric oxide and sulphur dioxide. Effective January 2004, nitric oxide emissions from power facilities in Ontario with a nameplate capacity greater than 25 MW, that were not already captured under the regulation, are capped as part of the regulation. Nitric oxide permits for 2004 operations were distributed to all capped power facilities in 2003. The total nitric oxide permits allocated to the Partnership's five Ontario facilities are expected to be sufficient to cover the nitric oxide emissions released from these plants in 2004. The actual levels of nitric oxide emissions that are released from the Partnership's facilities in 2004 will be reported and the appropriate amount of allowances retired at the end of March 2005.

BUSINESS RISKS

The Partnership operates quality assets under long-term PPAs and fuel supply contracts. These factors, combined with an excellent ongoing maintenance program, minimize exposures to operational risk and commodity price fluctuations. The most significant risks to the Partnership are those associated with plant performance (such as plant availability, water flows and waste heat availability), major maintenance costs and the potential impact on existing contracts as a result of deregulation or other government changes in electricity markets in which the Partnership operates.

The Curtis Palmer, ManChief, Mamquam and Queen Charlotte facilities are expected to reduce the Partnership's risk profile by: (i) lowering the Partnership's payout ratio and partially funding capital expenditures through internally generated funds; (ii) providing the Partnership with a more geographically diverse portfolio of assets; (iii) adding hydroelectric generation to the Partnership's asset base, thereby providing further fuel diversity for the Partnership and a stable source of low cost, environmentally friendly power production; and (iv) adding two new investment grade counterparties.

Plant personnel have developed procedures to minimize the downtime required for both scheduled and unscheduled maintenance. Strict safety standards are in place at all plants. In addition, the Partnership has adequate insurance to cover equipment breakdown and business interruption. The Partnership's combination of strong operating history and preventative maintenance programs has minimized the impact to the Partnership of significant increases in power plant insurance premiums that have been experienced throughout the power industry in recent years.

The risks associated with the uncertainty of the competitive marketplace, especially the volatility in market prices for electricity, have been minimized by the fixed-price, long-term PPAs in place with five investment grade power buyers – four A rated: OEFC; BC Hydro; Niagara Mohawk and TransCanada; and one BBB rated: PSCO.

Other risks include, but are not limited to, the following:

- contractual risks associated with counterparty default under the Partnership's power sales contracts and fuel supply agreements;
- changes in federal, provincial, state or local laws, regulations and permitting requirements, including environmental regulations and tax laws;
- financial risk relating to borrowing rates;
- uncertainty in estimating the final cost of asset retirement obligations under the power purchase arrangements; and
- labour negotiations at the Williams Lake plant.

Another risk for the Partnership is the potential conflict of interest between the Partnership and TransCanada. There is a requirement for approval by a majority of independent board members of transactions between the Partnership and TransCanada.

In July 2004, NAL Resources Limited ("NAL") and Devon Canada Corporation ("Devon") commenced actions against the Partnership claiming the gas supply contracts under which NAL and Devon sell gas to the Partnership for its Tunis power plant have been frustrated as of January 1, 2003 due to an alleged inability to determine the commodity charge for gas under such agreements. NAL and Devon additionally seek monetary damages based on referenced spot gas prices should the courts uphold their claims.

The Partnership has filed statements of defence and will vigorously defend the actions. The final outcome is not determinable at this time and accordingly, no amount has been accrued in the financial statements.

SENSITIVITY OF CASH FLOWS

The cash flows from operations are generally protected from variations in revenues and costs by the Partnership's long-term power sales, fuel and operating and management contracts. Variations in cash flows can occur due to unplanned outages, annual changes in the Williams Lake market-based excess energy prices, contractual changes in the Curtis Palmer PPA prices, fluctuations in water flows at the hydroelectric facilities, fluctuations in the U.S. dollar exchange rate, volatility in natural gas prices and reduced availability of wood waste or waste heat from compressor stations.

Periodic price changes within the long-term fuel contracts held by the Partnership could also cause a decrease in cash available to distribute. The Partnership has sought to reduce this risk by diversifying fuel sources and matching gas fuel supply contract increases to revenue increases over the life of the power purchase and fuel supply contracts.

Under the Ontario plants' PPAs, if minimum amounts of power are not provided on a monthly basis, a reduction in payments from OEFC will occur. The risk of significant impact on consolidated cash flows is mitigated through the diversification of cash flow sources as a result of having a number of plants, each of which operates under separate agreements.

The impact of unplanned outages at all plants is also mitigated through business interruption insurance, subject to deductibles.

The level of waste heat fuel at the Ontario plants provided by TransCanada's adjacent compressor stations operating on the TransCanada Canadian Mainline is dependent upon the amount of natural gas throughput on the pipeline. Pipeline throughput volumes are generally demand driven and are affected by, among other factors, weather, consumer usage and operations on competitive pipelines. In 2004, the Partnership and TransCanada entered into a waste heat optimization agreement. Under this agreement the Partnership compensates TransCanada for the incremental costs associated with optimizing natural gas throughput to the compressor stations located adjacent to the Partnership's Ontario plants.

With the acquisition of three hydroelectric facilities in 2004, the Partnership is now subject to hydrology risk which is dependent upon weather changes, local river management and potential dam failures at these plants or at dams upstream.

Although the Partnership is protected from significant fuel cost increases at Williams Lake through a cost recovery mechanism in the BC Hydro sales contract, the Partnership is still exposed to a portion of the costs to acquire wood waste fuel. In 2004, this represented approximately 16 per cent (2003 – 12 per cent) of the firm energy requirements at the Williams Lake plant. In 2004, the Partnership began paying a commodity charge for premium wood waste as demand increased in the region. This is expected to continue in the future. At the Calstock plant, wood waste transportation costs are primarily offset by tipping fee revenue earned from contracted mills to remove the wood waste.

The acquisitions of the Curtis Palmer and ManChief plants increased the Partnership's exposure to fluctuations in the U.S. dollar as both operations are based in the United States. The Partnership implemented a hedging program in 2004 to manage foreign exchange risk of its U.S. dollar future cash flows through the use of forward foreign exchange contracts.

SELECTED QUARTERLY AND ANNUAL CONSOLIDATED FINANCIAL DATA

	2004				
Three months ended (millions of dollars except per unit amounts) (unaudited)	**Mar. 31**	**Jun. 30**	**Sep. 30**	**Dec. 31**	**Total**
Revenues	**49.9**	**54.6**	**59.9**	**67.1**	**231.5**
Cost of Fuel	**11.8**	**10.8**	**9.5**	**11.4**	**43.5**
Operating and Maintenance Expenses	**5.4**	**6.3**	**6.9**	**6.9**	**25.5**
Other Plant Operating Expenses	**1.6**	**4.0**	**3.7**	**3.4**	**12.7**
	31.1	**33.5**	**39.8**	**45.4**	**149.8**
Other Costs					
Depreciation and amortization	**9.2**	**13.8**	**16.5**	**15.5**	**55.0**
Management and administration	**1.6**	**1.4**	**1.9**	**2.0**	**6.9**
Foreign exchange gains	**(0.2)**	**(5.9)**	**(14.2)**	**(10.5)**	**(30.8)**
Financial charges and other	**0.3**	**1.6**	**5.3**	**6.9**	**14.1**
	10.9	**10.9**	**9.5**	**13.9**	**45.2**
Net Income Before Income Tax	**20.2**	**22.6**	**30.3**	**31.5**	**104.6**
Income Tax					
Current	**0.3**	**1.2**	**1.2**	**0.7**	**3.4**
Future	**(0.2)**	**0.1**	**–**	**0.6**	**0.5**
Net Income	**20.1**	**21.3**	**29.1**	**30.2**	**100.7**
Net Income Per Unit	**$ 0.51**	**$ 0.48**	**$ 0.61**	**$ 0.64**	**$ 2.25**
Cash Distributions	**24.8**	**29.8**	**29.9**	**29.9**	**114.4**
Cash Distributions Per Unit	**$ 0.63**	**$ 0.63**	**$ 0.63**	**$ 0.63**	**$ 2.52**

	2003				
Three months ended (millions of dollars except per unit amounts) (unaudited)	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Total
Revenues	51.7	40.3	42.0	44.0	178.0
Cost of Fuel	10.8	11.2	11.4	8.7	42.1
Operating and Maintenance Expenses	5.2	5.0	5.1	5.1	20.4
Other Plant Operating Expenses	1.5	1.9	1.4	1.5	6.3
	34.2	22.2	24.1	28.7	109.2
Other Costs					
Depreciation and amortization	8.9	9.0	9.1	9.1	36.1
Management and administration	2.0	1.6	1.4	0.5	5.5
Foreign exchange losses	0.5	0.6	–	0.6	1.7
Financial charges and other	0.3	0.3	0.3	0.3	1.2
	11.7	11.5	10.8	10.5	44.5
Net Income Before Income Tax	22.5	10.7	13.3	18.2	64.7
Income Tax					
Current	0.5	0.2	0.3	0.2	1.2
Future	(0.4)	(0.1)	(0.2)	(0.2)	(0.9)
Net Income	22.4	10.6	13.2	18.2	64.4
Net Income Per Unit	$ 0.57	$ 0.27	$ 0.34	$ 0.46	$ 1.64
Cash Distributions	24.8	24.7	24.8	24.8	99.1
Cash Distributions Per Unit	$ 0.63	$ 0.63	$ 0.63	$ 0.63	$ 2.52

FACTORS IMPACTING QUARTERLY FINANCIAL INFORMATION

The Partnership's Selected Quarterly and Annual Consolidated Financial Data, which has been prepared in accordance with Canadian GAAP, is set out above. Under the PPA's for the Ontario plants, the Partnership receives higher per MWh prices in the winter months (October to March) and lower prices in the summer months (April to September). In addition, contributions from the Williams Lake plant are usually lower in the fourth quarter once the annual firm energy requirements are met and the plant is only producing lower priced excess energy. Results for the year ended December 31, 2003 were indicative of these trends.

In the second quarter of 2004, the Partnership acquired the Curtis Palmer and ManChief plants resulting in increased revenues, net income and funds generated from operations. The Partnership also issued U.S. dollar-denominated debt in the second quarter resulting in foreign exchange gains for the remainder of 2004 as the U.S. dollar weakened. In the third quarter of 2004, the Partnership acquired the Mamquam and Queen Charlotte facilities resulting in further increases to revenues, net income and funds generated from operations. Interest expense also increased as a result of the financing required to fund these acquisitions.

Quarterly trends for the Partnership's revenues, funds generated from operations and net income will shift slightly in future years with the inclusion of results from the plants acquired in 2004. Revenues from the Curtis Palmer, Mamquam and Queen Charlotte hydroelectric facilities are anticipated to be higher in the spring months and revenues from the ManChief facility are anticipated to peak in the summer months.

Quarterly and Annual Unit Trading Information
(TPL.UN on the Toronto Stock Exchange)

	2004				
Three months ended	**Mar. 31**	**Jun. 30**	**Sep. 30**	**Dec. 31**	**Annual**
Unit Price					
High	**$ 38.00**	**$ 36.85**	**$ 34.74**	**$ 36.00**	**$ 38.00**
Low	**$ 35.16**	**$ 29.62**	**$ 31.00**	**$ 32.10**	**$ 29.62**
Close	**$ 36.85**	**$ 31.29**	**$ 33.40**	**$ 35.50**	**$ 35.50**
Volume traded (millions of units)	**2.6**	**5.8**	**4.5**	**2.9**	**15.8**

	2003				
Three months ended	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual
Unit Price					
High	$ 32.75	$ 35.00	$ 34.95	$ 37.10	$ 37.10
Low	$ 30.80	$ 31.50	$ 33.45	$ 34.10	$ 30.80
Close	$ 31.95	$ 34.00	$ 34.40	$ 36.30	$ 36.30
Volume traded (millions of units)	2.3	3.0	3.6	2.5	11.4

FOURTH QUARTER 2004 HIGHLIGHTS

The Partnership reported funds generated from operations of $36.9 million for the fourth quarter 2004, compared to $27.1 million for the same period in 2003. The increase in funds generated from operations for the fourth quarter 2004, was primarily due to the plants acquired in 2004. On a per unit basis, funds generated from operations for the fourth quarter increased $0.09 per unit to $0.78 per unit.

Net income was $30.2 million or $0.64 per unit for the fourth quarter 2004, compared to $18.2 million or $0.46 per unit for the same period in 2003. The increase in net income for the fourth quarter was primarily due to $11.5 million of unrealized foreign exchange gains on the translation of the Partnership's US$190.0 million of long-term debt. These unrealized foreign exchange gains did not impact funds generated from operations. Net income for the fourth quarter 2004, excluding these unrealized foreign exchange gains, was $18.7 million. This increase from the same period in 2003 was primarily due to the four plants acquired in 2004.

OTHER INFORMATION

Additional information relating to the Partnership, including the Annual Information Form and continuous disclosure documents, is posted on SEDAR at www.sedar.com under TransCanada Power, L.P. Other selected consolidated financial information for the year ended December 31, 2004 is found under the heading "Eight-Year Financial Highlights" on page 47 in this Annual Report.

ACCOUNTING CHANGES

Hedging Relationships Effective January 1, 2004, the Partnership adopted the provisions of the Canadian Institute of Chartered Accountants (CICA) new Accounting Guideline "Hedging Relationships" that specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges, and the discontinuance of hedge accounting. The Partnership had no hedges in place at January 1, 2004, but did enter into hedges during 2004.

Generally Accepted Accounting Principles Effective January 1, 2004, the Partnership adopted the new Handbook Section "Generally Accepted Accounting Principles" which establishes standards for financial reporting in accordance with GAAP. It defines primary sources of GAAP and requires that an entity apply every relevant primary source. The adoption of this section did not have an impact on the Partnership's Consolidated Financial Statements.

Impairment of Long-Lived Assets Effective January 1, 2004, the Partnership adopted the new Handbook Section "Impairment of Long-Lived Assets". This section establishes new standards for the recognition, measurement and disclosure of the impairment of long-lived assets and establishes new write-down provisions. The adoption of this section did not have an impact on the Partnership's Consolidated Financial Statements.

FORWARD-LOOKING INFORMATION

Certain information in this Management's Discussion and Analysis is forward-looking and is subject to important risks and uncertainties. The results or events predicted in this information may differ from actual results or events. Factors that could cause actual results or events to differ materially from current expectations include, among other things, the ability of the Partnership to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the availability and price of energy commodities, regulatory decisions, plant availability, competitive factors in the power industry, currency exchange rates and the prevailing economic conditions in North America. For additional information on these and other factors, see the reports filed by the Partnership with Canadian securities regulators. The Partnership disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

2004 CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF MANAGEMENT

The consolidated financial statements included in the Annual Report are the responsibility of the Management of the General Partner and have been approved by its Board of Directors. These consolidated financial statements have been prepared by the Management of the General Partner in accordance with Canadian generally accepted accounting principles (GAAP) and include amounts that are based on estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management of the General Partner has prepared Management's Discussion and Analysis, which is based on the Partnership's financial information prepared in accordance with GAAP. It compares the Partnership's financial performance in 2004 to 2003, and should be read in conjunction with the consolidated financial statements and accompanying notes.

Management of the General Partner has developed and maintains a system of internal controls and believes that these controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements.

The General Partner's Board of Directors has appointed an Audit Committee, which meets periodically during the year with Management of the General Partner and the Partnership's external auditors independently and as a group. The Audit Committee reviews the consolidated financial statements with the Management of the General Partner and the Partnership's external auditors before the consolidated financial statements are submitted to the General Partner's Board of Directors for approval. The external auditors have free access to the General Partner's Audit Committee without obtaining approval from Management of the General Partner.

The independent external auditors, KPMG LLP, have been appointed by the General Partner's Board of Directors to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the Partnership's financial position, results of operations and cash flows in accordance with GAAP. The following report of KPMG LLP, outlines the scope of their examination and their opinion on the consolidated financial statements.

Sean McMaster

Sean D. McMaster
President

Russell K. Girling
Chief Financial Officer

March 3, 2005

AUDITORS' REPORT

To the Partners We have audited the consolidated balance sheets of TransCanada Power, L.P. as at December 31, 2004 and 2003 and the consolidated statements of income, cash flows and partners' equity for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Management of the General Partner. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the General Partner's Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 3, 2005

CONSOLIDATED INCOME

Year ended December 31 (millions of dollars)	2004	2003
Revenues	**231.5**	178.0
Cost of Fuel	**43.5**	42.1
Operating and Maintenance Expenses	**25.5**	20.4
Other Plant Operating Expenses	**12.7**	6.3
	149.8	109.2
Other Costs		
Depreciation and amortization	**55.0**	36.1
Management and administration	**6.9**	5.5
Foreign exchange (gains)/losses	**(30.8)**	1.7
Financial charges and other (Note 7)	**14.1**	1.2
	45.2	44.5
Net Income Before Income Tax	**104.6**	64.7
Income Tax (Note 12)		
Current	**3.4**	1.2
Future	**0.5**	(0.9)
	3.9	0.3
Net Income	**100.7**	64.4
Net Income Per Unit	**$ 2.25**	$ 1.64
Weighted Average Units Outstanding (millions)	**44.7**	39.3

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED CASH FLOWS

Year ended December 31 (millions of dollars)	2004	2003
Cash Generated from Operations		
Net income	**100.7**	64.4
Depreciation and amortization	**55.0**	36.1
Future income tax	**0.5**	(0.9)
Foreign exchange gains on U.S. dollar debt	**(31.9)**	–
Other	**3.9**	–
Funds generated from operations	**128.2**	99.6
Decrease in operating working capital	**15.4**	16.2
Net cash provided by operating activities	**143.6**	115.8
Investing Activities		
Acquisition of Curtis Palmer and ManChief facilities (Note 3)	**(576.8)**	–
Acquisition of Mamquam and Queen Charlotte facilities (Note 4)	**(152.5)**	–
Capital expenditures	**(14.6)**	(8.2)
Net cash used in investing activities	**(743.9)**	(8.2)
Financing Activities		
Distributions paid	**(109.3)**	(99.1)
Repayment of TransCanada operating line	**(26.0)**	(10.5)
Credit facility issued	**188.0**	–
Credit facility repaid	**(188.0)**	–
U.S. dollar short-term debt issued	**529.9**	–
U.S. dollar short-term debt repaid	**(524.6)**	–
Canadian dollar long-term debt issued	**210.0**	–
U.S. dollar long-term debt issued	**255.2**	–
Deferred financing costs	**(5.3)**	–
Limited partner units issued, net of costs	**286.9**	–
Net cash provided by/(used in) financing activities	**616.8**	(109.6)
Increase/(Decrease) in Cash and Short-Term Investments	**16.5**	(2.0)
Cash and Short-Term Investments, Beginning of Year	**3.7**	5.7
Cash and Short-Term Investments, End of Year	**20.2**	3.7
Supplementary Cash Flow Information		
Income taxes paid	**3.4**	0.9
Interest paid	**4.8**	1.5

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEET

As at December 31 (millions of dollars)	2004	2003
ASSETS		
Current Assets		
Cash and short-term investments	**20.2**	3.7
Accounts receivable	**27.3**	14.7
Inventories	**7.2**	7.9
Prepaids and other	**4.2**	1.8
	58.9	28.1
Plant, Property and Equipment (Note 5)	**902.4**	573.5
Power Purchase Arrangements (Note 6)	**371.4**	–
Future Income Taxes (Note 12)	**2.4**	3.1
Other Assets	**11.3**	–
	1,346.4	604.7
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Operating line (Note 14)	**–**	26.0
Accounts payable	**28.0**	6.5
Distributions payable	**29.9**	24.8
Long-term debt due within one year (Note 7)	**0.8**	–
	58.7	57.3
Asset Retirement Obligations (Note 13)	**16.0**	–
Long-Term Debt (Note 7)	**444.4**	–
Deferred Amounts (Note 10)	**6.7**	–
Partners' Equity (Note 8)	**820.6**	547.4
Contingencies (Note 18)		
	1,346.4	604.7

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED PARTNERS' EQUITY

Year Ended December 31 (millions of dollars)	2004	2003
Balance, Beginning of Year	**547.4**	582.1
Limited Partner Units Issued, Net of Costs	**286.9**	–
Net Income	**100.7**	64.4
Cash Distributions (Note 9)	**(114.4)**	(99.1)
Balance, End of Year	**820.6**	547.4

The accompanying notes to the Consolidated Financial Statements are an integral part of these statements.

Approved by TransCanada Power Services Ltd., as General Partner of TransCanada Power, L.P.

Russell K. Girling
Director

Brian A. Felesky
Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Business of the Partnership

TransCanada Power, L.P. (the Partnership) is a limited partnership created under the laws of the Province of Ontario pursuant to a Partnership Agreement dated March 27, 1997, as amended and restated June 6, 1997, September 29, 1998 and April 29, 2004. The Partnership commenced operations on June 18, 1997 and currently has independent power generating facilities in Ontario, British Columbia, New York and Colorado.

TransCanada Power Services Ltd., the General Partner, is an indirect wholly-owned subsidiary of TransCanada Corporation (TransCanada, collectively with its subsidiaries) and has the responsibility for overseeing the management of the Partnership and cash distributions to unitholders. The General Partner has engaged certain other TransCanada subsidiaries (collectively, the Manager) to perform management and administrative services on behalf of the Partnership and to operate and maintain the power plants pursuant to management and operations agreements.

Electricity generated at the facilities is sold under long-term contracts to five investment grade customers – Ontario Electricity Financial Corporation (OEFC), British Columbia Hydro and Power Authority (BC Hydro), TransCanada, Niagara Mohawk Power Corporation (Niagara Mohawk) and Public Service Company of Colorado (PSCO). In 2004, approximately 48 per cent (2003 – 61 per cent) of revenues were earned from power sales to OEFC and 17 per cent (2003 – 19 per cent) to BC Hydro.

At December 31, 2004, TransCanada held 30.6 per cent of the outstanding limited partnership units, a decrease from 35.6 per cent held at December 31, 2003.

NOTE 2 Accounting Policies

The Consolidated Financial Statements of the Partnership have been prepared by the management of the General Partner in accordance with Canadian generally accepted accounting principles. Since a determination of many assets, liabilities, revenues and expenses is dependent on future events, the preparation of these Consolidated Financial Statements requires the use of estimates and assumptions which have been made using careful judgement. In the opinion of management of the General Partner, these Consolidated Financial Statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below. Certain comparative figures have been reclassified to conform to the current year's presentation.

Basis of Presentation The Consolidated Financial Statements of the Partnership include the accounts of its subsidiaries. Intercompany transactions and balances have been eliminated.

Foreign Currency Translation The Partnership indirectly owns United States subsidiaries, the accounts of which are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historic exchange rates. Revenues and expenses are translated at rates in effect at the time of the transactions except for depreciation and amortization expense which is translated at historical rates. Foreign exchange gains and losses are included in the Consolidated Statement of Income. Unrealized foreign exchange gains and losses are excluded from funds generated from operations.

Cash and Short-Term Investments The Partnership's short-term investments that have original maturities of three months or less are considered to be cash equivalents and are recorded at cost, which approximates market value.

Inventories Inventories of spare and replacement parts are carried at the lower of average cost or net realizable value.

Capital Assets Capital assets are recorded at cost. Power generation plant and equipment, less estimated residual value, is depreciated on a straight-line basis over the estimated service life. Other equipment, which includes the costs of major overhauls, is capitalized and depreciated over estimated service lives of three to 10 years.

On April 29, 2004, unitholders approved an amendment to the terms of the Partnership Agreement to remove the Partnership's obligation to redeem, in 2017, all of the units then outstanding not held directly by TransCanada. As a result of removing this redemption obligation, the Partnership prospectively changed its depreciation policy to depreciate power generation plant and equipment over its remaining useful life, whereas the previous policy was to depreciate these assets over their remaining life to 2017.

Power Purchase Arrangements Power purchase arrangements (PPAs) are long-term contracts to purchase power on a predetermined basis. The portion of the purchase price for the Curtis Palmer, ManChief, Mamquam and Queen Charlotte acquisitions that was allocated to PPAs is being amortized over the remaining terms of the contracts, which range from eight to 23 years, from the dates of acquisition. The terms of the ManChief, Mamquam and Queen Charlotte PPAs are such that the related plant, property and equipment are accounted for as assets under operating leases.

Deferred Debt Issue Costs The Partnership incurred placement fees and other costs in connection with issuing long-term debt. These amounts are included in Other Assets and amortized over the term of the related debt.

Revenue Recognition Revenue is recognized when energy is delivered under various long-term contracts. Revenue under the Curtis Palmer PPA is recognized at the lower of the contract price per megawatt hour (MWh) and the average price per MWh over the term of the contract from the date of acquisition. Any excess of the contract price over the average price is recorded as deferred revenue.

Asset Retirement Obligations As a result of removing the redemption obligation in 2017, the Partnership recorded an asset retirement obligation for the gas-fired and wood waste power plants. Asset retirement obligations are recorded for additional plants as they are acquired. The fair value of the liability is added to the carrying value of the associated asset and depreciated accordingly. The liability is accreted at the end of each period through charges to operating expenses. No amount has been recorded for asset retirement obligations relating to the hydroelectric power plants because it is not possible to make a reasonable estimate of the fair value of the liability due to the indeterminate timing and scope of the retirements.

Income Taxes Income taxes, other than those of the Partnership's corporate subsidiaries, are the responsibility of the individual partners and have not been recorded in the Consolidated Financial Statements.

Income taxes related to the Partnership's corporate subsidiaries are calculated using the liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using enacted or substantively enacted tax rates that are expected to apply in the period that the temporary differences are expected to reverse.

Derivative Financial Instruments The Partnership has established a hedging program to manage its exposure to changes in foreign currency exchange rates that result from future anticipated U.S. dollar-denominated cash flows from its U.S. power plants. Net U.S. dollar-denominated cash flows are converted to Canadian dollars to fund a portion of the operations and distributions to unitholders. The Partnership also hedges future anticipated interest payments on certain U.S. dollar-denominated long-term debt.

The fair values of the forward foreign exchange contracts and interest rate hedges are estimated using period-end market rates. These fair values approximate the amount that the Partnership would receive or pay if these instruments were closed out at the period-end dates. Gains or losses relating to these hedges are recognized in income in the same period and in the same financial statement category as the gains or losses on the corresponding hedged transactions.

A derivative must be designated and effective to be accounted for as a hedge. For cash flow hedges, effectiveness is achieved if the changes in the cash flows of the derivative substantially offset the changes in the cash flows of the hedged position and if the timing of the cash flows is similar. In the event that a derivative does not meet the designation or effectiveness criterion, the gain or loss on the derivative is recognized in income immediately. If a derivative that qualifies as a hedge is settled early, the gain or loss at settlement is deferred and recognized when the gain or loss on the designated transaction is recognized. Premiums paid or received with respect to derivatives that are hedges are deferred and amortized to income over the term of the hedge.

Net Income Per Unit Net income per unit is calculated by dividing net income by the weighted average number of units outstanding, including those held indirectly by TransCanada.

NOTE 3 Acquisition of Curtis Palmer and ManChief Facilities

On April 30, 2004, the Partnership acquired, from TransCanada, 100 per cent of the entities that owned the Curtis Palmer and ManChief power plants for consideration of US$402.6 million ($551.8 million), plus post-closing adjustments of $17.1 million and acquisition costs of $7.9 million. Acquisition costs included fees of $5.8 million paid to TransCanada, pursuant to an existing Transaction Fees and Costs Agreement, and legal and advisory fees of $2.1 million. The purchase price of $576.8 million was allocated on a preliminary basis using an estimate of fair values of the net assets at the date of acquisition as follows:

(millions of dollars)	Curtis Palmer	ManChief	Total
Current assets	7.0	4.7	11.7
Plant, property and equipment	115.4	119.5	234.9
PPAs	263.8	68.7	332.5
Current liabilities	(0.3)	(0.5)	(0.8)
Asset retirement obligations	–	(1.5)	(1.5)
	385.9	190.9	576.8

The Partnership entered into an agreement with the Manager to operate and manage the Curtis Palmer and ManChief power plants at an annual fee of approximately $5.6 million, adjusted for inflation.

Note 4 Acquisition of Mamquam and Queen Charlotte Facilities

On July 23, 2004, the Partnership acquired companies that indirectly owned Hydro Investment Corporation (HIC) for approximately $152.5 million, net of $9.1 million of cash acquired on closing. The purchase price included estimated post-closing adjustments of approximately $0.8 million and acquisition costs of $5.0 million. Acquisition costs include fees of $2.9 million payable to TransCanada, pursuant to an existing Transaction Fees and Costs Agreement, and estimated legal and advisory fees of $2.1 million. Through the acquisition, the Partnership obtained ownership of two hydroelectric facilities in British Columbia, the Mamquam and Queen Charlotte power plants, which were owned by subsidiaries of HIC. The total purchase price of $161.6 million was allocated on a preliminary basis based on an estimated fair value of the assets and liabilities acquired as follows:

(millions of dollars)	
Cash	9.1
Other current assets	0.5
Plant, property and equipment	105.5
PPAs	53.3
Current liabilities	(0.3)
Long-term debt due within one year	(0.8)
Long-term debt	(5.7)
	161.6

The Manager operates and manages the Mamquam and Queen Charlotte power plants at an annual fee of approximately $1.2 million, adjusted for inflation.

NOTE 5 Plant, Property and Equipment

December 31 (millions of dollars)	**2004**			2003		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Land	**4.7**	**–**	**4.7**	3.1	–	3.1
Power generation plant and equipment	**1,070.4**	**192.8**	**877.6**	716.2	156.4	559.8
Other equipment	**35.5**	**15.4**	**20.1**	29.4	18.8	10.6
	1,110.6	**208.2**	**902.4**	748.7	175.2	573.5

Depreciation expense for the year ended December 31, 2004 was $40.6 million (2003 – $36.1 million).

NOTE 6 Power Purchase Arrangements

December 31 (millions of dollars)	**2004**		
	Cost	**Accumulated Amortization**	**Net Book Value**
Power purchase arrangements	**385.8**	**14.4**	**371.4**

Amortization expense with respect to the PPAs was $14.4 million for the year ended December 31, 2004 (2003 – nil).

NOTE 7 Long-Term Debt

December 31 (millions of dollars)	Maturity	2004	Interest Rate
Unsecured senior notes (US$190.0 million)	2014	**228.7**	5.9%
Credit facility [1]	2009	**210.0**	3.2%
Secured term loan	2010	**6.5**	11.3%
		445.2	
Less: Current portion of long-term debt		**0.8**	
		444.4	

(1) The all-in effective interest rate after consideration of forward contracts is approximately 5.2 per cent.

In November 2004, the Partnership arranged $210.0 million of five-year, non-amortizing debt through a credit facility with a syndicate of Canadian banks. The outstanding principal is due in full upon maturity in November 2009. Under the terms of this credit facility, the Partnership can obtain advances by way of prime loans, US Base Rate loans, LIBOR loans and Bankers' Acceptances. At December 31, 2004, the loan bears interest at an average Bankers' Acceptance rate of 3.2 per cent. Interest is payable in arrears based on the type of advance. The effective interest rate after including the forward contracts is approximately 5.2 per cent.

The proceeds from this $210.0 million credit facility were used to repay the $188.0 million outstanding balance on a 364-day, $500 million acquisition facility that was provided by two Canadian chartered banks. The $188.0 million was borrowed under an acquisition facility to fund the acquisition of the Mamquam and Queen Charlotte plants. The remaining $22.0 million of the $210.0 million issuance was used to reduce the balance outstanding on the third party operating line.

In July 2004, the Partnership assumed $6.5 million of long-term debt as part of the HIC acquisition. This term loan is secured by a first fixed and specific mortgage over the Queen Charlotte plant. The loan bears interest at an annual rate of approximately 11.3 per cent and matures on July 15, 2010.

In June 2004, Curtis Palmer Inc., an indirect wholly-owned subsidiary of the Partnership, issued US$190.0 million of unsecured senior notes. The notes are fully and unconditionally guaranteed as to payment of principal, premium, if any, and interest on a senior unsecured basis by the Partnership. The notes mature in July 2014. Interest on the notes accrues at 5.9 per cent per annum and is payable semi-annually in arrears commencing January 2005. The net proceeds from this debt issue, together with cash on hand, were used to repay the US$194.0 million of borrowings under an acquisition facility used for the Curtis Palmer acquisition.

Principal Repayments Principal repayments on the long-term debt of the Partnership for the next five years are: 2005 – $0.8 million; 2006 – $0.9 million; 2007 – $1.0 million; 2008 – $1.1 million and 2009 – $211.3 million.

Financial Charges and Other

Year ended December 31 (millions of dollars)	2004	2003
Interest on long-term debt	**8.2**	–
Interest on short-term debt	**3.9**	1.2
Other	**2.0**	–
	14.1	1.2

NOTE 8 Partners' Equity

December 31	**2004**	2003
Partners' equity	**1,015.6**	728.7
Accumulated income	**407.2**	306.5
Accumulated distributions	**(602.2)**	(487.8)
	820.6	547.4

The Partnership is authorized to issue an unlimited number of limited partnership units. Each unit represents an equal, undivided limited partnership interest in the Partnership and entitles the holder to participate equally in cash distributions and net income. Units are not subject to future calls or assessments and entitle the holder to limited liability. Each unit is transferable, subject to the requirements referred to in the Partnership Agreement.

In April 2004, the Partnership issued 8,110,000 subscription receipts, priced at $37.00 per subscription receipt, to the public and TransCanada for net proceeds of $286.9 million to finance part of the acquisition of the Curtis Palmer and ManChief facilities. Upon closing of the Curtis Palmer and ManChief acquisitions, each subscription receipt was exchanged for one limited partnership unit. TransCanada purchased 540,000 subscription receipts for $20.0 million and, as a result, TransCanada's ownership interest in the Partnership was reduced from 35.6 per cent to 30.6 per cent.

	Number of Units	Millions of Dollars
Outstanding at December 31, 2003	39,311,982	728.7
Units issued through subscription receipts offering	8,110,000	286.9
Outstanding at December 31, 2004	**47,421,982**	**1,015.6**

In 2004, the weighted average number of units outstanding was 44,740,807 (2003 – 39,311,982).

NOTE 9 Cash Distributions

The amount of cash distributions to be distributed quarterly is based on the amount of funds generated from operations plus or minus any cash reserve. Under the Partnership Agreement, the Board of Directors of the General Partner has the authority to establish cash reserves that are determined to be necessary to satisfy the Partnership's current and anticipated obligations, which will include all or a portion of capital expenditures, or to normalize quarterly cash distributions to unitholders.

Year ended December 31 (millions of dollars except per unit amounts)	**2004**	2003
Funds Generated from Operations	**128.2**	99.6
Cash Reserve	**(13.8)**	(0.5)
Cash Distributions	**114.4**	99.1
Cash Distributions Per Unit	**$ 2.52**	$ 2.52

NOTE 10 Risk Management

As at December 31, 2004, outstanding forward foreign exchange contracts with a principal amount of US$88 million had a positive fair value of $13.2 million (December 31, 2003 – nil). These contracts hedge a portion of the Partnership's future anticipated U.S. dollar-denominated cash flows from 2005 to 2009 at a weighted average exchange rate of 1.35.

As at December 31, 2004, outstanding interest rate swaps, which hedge the future interest payments from 2005 to 2009 on the Partnership's Canadian dollar credit facility, had a negative fair value of $6.5 million and a notional principal amount of $200 million (December 31, 2003 – nil).

NOTE 11 Fair Value of Financial Instruments

At December 31, 2004, the carrying value of the current financial assets and liabilities of the Partnership approximate their fair value due to their short period to maturity. The fair values of long-term debt are determined using market prices of similar issues.

Other Fair Values

December 31, 2004 (millions of dollars)	Carrying Amount	Fair Value
Unsecured senior notes (US$190.0 million)	228.7	237.9
Credit facility	210.0	210.0
Secured term loan	6.5	7.9

NOTE 12 Income Taxes

The provision for income taxes in the financial statements differs from the result which would have been obtained by applying the combined Canadian federal and provincial tax rate to the Partnership's income before taxes. The difference results from the following:

Reconciliation of Income Tax Expense

Year ended December 31 (millions of dollars)	**2004**	2003
Net income before income tax	**104.6**	64.7
Combined federal and provincial tax rate	**34.1%**	36.6%
Expected income tax expense	**35.7**	23.7
Income allocated to Partnership unitholders	**(23.1)**	(24.1)
Unrealized foreign exchange (gain)/loss	**(10.3)**	0.4
Withholding taxes	**0.8**	0.2
Other	**0.8**	0.1
Actual income tax expense	**3.9**	0.3

Future Income Tax Asset

December 31 (millions of dollars)	**2004**	2003
Difference in accounting and tax basis of plant, property and equipment and PPAs	**1.5**	3.0
Deferred revenue and other	**0.9**	0.1
Future income tax assets, net of valuation allowance	**2.4**	3.1

Note 13 Asset Retirement Obligations

At December 31, 2004, the estimated undiscounted cash flows required to settle the Partnership's asset retirement obligations were $66.1 million, calculated using an inflation rate of three per cent per annum. The estimated fair value of the liability was $16.0 million. The estimated cash flows were discounted at approximately seven per cent. At December 31, 2004, the expected timing of payment for settlement of the obligations ranged from 19 to 30 years.

NOTE 14 Operating Line

In August 2004, the Partnership entered into a $50.0 million extendible, revolving, term operating line with a Canadian chartered bank to be used for general Partnership purposes. Under the terms of the operating line, the Partnership can borrow funds in Canadian or U.S. dollars by obtaining loans or issuing Bankers' Acceptances or Letters of Credit. Interest is calculated at variable rates. This operating line replaced an operating line with TransCanada, which was terminated in 2004.

Note 15 Related Party Transactions

The Partnership and TransCanada have an agreement expiring in 2008 whereby the Partnership provides to TransCanada the operating capacity and power output of the Castleton power plant in return for a fixed monthly fee, denominated in U.S. dollars, which escalates with inflation.

TransCanada guarantees a certain minimum amount of cash flows for the Calstock plant until October 2005.

Fuel contracts include long-term agreements with the Manager to supply fuel for the North Bay and Kapuskasing plants and long-term agreements with TransCanada to supply gas transportation and waste heat for each of the Ontario facilities.

The Manager manages gas fuel supply on behalf of the Partnership and fuel in excess of daily plant requirements is sold on the open market through the Manager and is recorded as a reduction of the cost of fuel.

Additional gas sales are included in revenue related to enhancement transactions undertaken by the Manager at certain Ontario power plants to re-sell contracted natural gas fuel at high market prices, rather than produce off-peak power at lower rates.

The Partnership paid acquisition fees of $8.7 million to TransCanada pursuant to an existing Transaction Fees and Costs Agreement for the 2004 acquisitions.

In April 2004, the Partnership issued US$192.6 million under promissory notes to TransCanada to temporarily fund the acquisition of the Curtis Palmer and ManChief plants. The promissory notes were repaid in May 2004 with the proceeds from an acquisition facility which was subsequently repaid with cash on hand and proceeds from U.S. senior unsecured notes issued in June 2004.

Amounts charged to the Partnership under these and other contracts with TransCanada were as follows:

Transactions with Related Parties

Year ended December 31 (millions of dollars)	**2004**	2003
Revenues		
Castleton – capacity payments	**15.3**	16.3
Ontario – enhancement revenues	**11.4**	15.3
Ontario – Calstock guarantee fee	**3.1**	2.1
	29.8	33.7
Cost of Fuel		
Ontario – gas fuel supply	**20.9**	18.0
Ontario – gas diversion sales	**(10.3)**	(7.8)
Ontario – gas transportation	**12.0**	12.4
Ontario – waste heat	**0.7**	0.5
Castleton – gas demand charge	**2.4**	2.5
	25.7	25.6
Operating and Maintenance Expenses	**25.5**	20.4
Management and Administration		
Base fees	**1.1**	1.0
Incentive fees	**1.9**	1.7
Enhancement fees	**1.3**	1.8
	4.3	4.5
Acquisition Fees	**8.7**	–
Interest Expense		
Operating line	**0.9**	1.2
Promissory notes	**0.7**	–
	1.6	1.2

Included in accounts payable at December 31, 2004 are amounts owing to TransCanada of $0.5 million (2003 – $2.0 million).

NOTE 16 Operating Leases

As at December 31, 2004, the carrying value of the ManChief, Mamquam and Queen Charlotte plant, property and equipment was $231.9 million less accumulated depreciation of $3.9 million. The Partnership's revenues for the year ended December 31, 2004 included $22.5 million with respect to the ManChief, Mamquam and Queen Charlotte PPAs.

NOTE 17 U.S. Operations

For the year ended December 31, 2004, the Partnership's U.S. operations generated approximately $64.9 million of revenue (2003 – $16.3 million). As at December 31, 2004, the net book value of plant, property and equipment and PPAs included $586.1 million (December 31, 2003 – $34.1 million) for assets held in the U.S.

NOTE 18 Commitments and Contingencies

Power revenues for the Ontario power plants are determined based on the amount of electricity delivered under long-term PPAs with OEFC expiring from 2012 to 2020. Contracted sales prices are fixed with built-in minimum annual escalators that vary from zero to 4.4 per cent. Power revenues at the Williams Lake power plant are based on a firm amount of electricity delivered under a long-term contract with BC Hydro expiring in 2018. Deliveries above this firm amount are sold to BC Hydro at market-based rates.

All of the electricity generated at the Curtis Palmer, ManChief, Mamquam and Queen Charlotte facilities acquired in 2004 is sold at predetermined prices under long-term PPAs. The Curtis Palmer PPA, which expires in 2027, is with Niagara Mohawk. The ManChief plant has two separate tolling agreements with PSCO that expire in 2012. The Mamquam and Queen Charlotte PPAs are with BC Hydro and expire in 2027 and 2022, respectively.

The majority of fuel costs for the Ontario plants are under fixed long-term gas supply and wood waste supply contracts with built-in annual escalators. Expiry dates for the fuel contracts vary in length with an average remaining contract life of 10 years as at December 31, 2004. The remaining fuel requirements, which account for approximately five per cent of the power plants' fuel costs, are purchased at current market prices.

Wood waste supply for the Williams Lake power plant is under contract with a number of area mills. The contracts expire in 2018. The cost to the plant is for transportation of the wood waste to the plant per tonne delivered. Fuel costs increase if the local mills have inadequate supply and wood waste has to be sourced from mills further away. However, variability in fuel costs has limited impact on the Partnership's net income and funds generated from operations, as the majority of fuel costs related to firm energy production are recovered through cost recovery mechanisms in the sales contract with BC Hydro.

In July 2004, NAL Resources Limited ("NAL") and Devon Canada Corporation ("Devon") commenced actions against the Partnership claiming the gas supply contracts under which NAL and Devon sell gas to the Partnership for its Tunis power plant have been frustrated as of January 1, 2003 due to an alleged inability to determine the commodity charge for gas under such agreements. NAL and Devon additionally seek monetary damages based on referenced spot gas prices should the courts uphold their claims.

The Partnership has filed statements of defence and will vigorously defend the actions. The final outcome is not determinable at this time and accordingly, no amount has been accrued in the financial statements.

PARTNERSHIP GOVERNANCE

The governance of the Partnership is the responsibility of the Board of Directors (the Board) of the General Partner and the rights, authority and limitations on the General Partner are described in the Limited Partnership Agreement (the Partnership Agreement). As set out in the Partnership Agreement, the Board is to be composed of seven directors, four of which are related to TransCanada with the remaining three members being independent and unrelated to TransCanada.

The Board has determined that notwithstanding the Partnership Agreement, it is appropriate and in the interests of good governance that an additional independent and unrelated director be appointed to the Partnership's Board. This action has resulted in the Board of Directors consisting of eight directors, four of whom are independent and unrelated to TransCanada and four who are related to TransCanada. Additionally, the Audit Committee is composed of independent directors in compliance with the Audit Committee rules under the Ontario Securities Commission's Multilateral Instrument 52-110. The Board has also determined that the independent directors would designate a "Lead Director" from among their number.

The Board has plenary power for all activities of the Partnership unless specifically delegated to committees of the Board or management. To fulfill its responsibilities, with respect to the Partnership, the General Partner's Board has established three committees: Audit, Corporate Governance and Independent Directors. The combined work of the Board and these committees fulfill the fiduciary responsibility of the Board to foster the long-term success of the Partnership and maximize the partners' value.

The Partnership Agreement provides that the Board can function separately from the Manager and management, as a majority of independent directors must approve all material transactions or agreements between the Partnership and TransCanada. The Board's governance structure has accommodated this requirement through the establishment of the independent directors committee, which approves all material transactions between the Partnership and TransCanada and any of TransCanada's affiliates or associates. The Board has also appointed a Lead Director with a separate mandate that assists in ensuring the independent functioning of the Board.

Both the Board and its committees can approve the engagement of outside advisors. The engagement of advisors for the committees or individual members is limited to advisors required for matters within a committee's mandated responsibilities or for advice relative to a member's fiduciary duties or conflict of interest matters.

As a publicly traded entity, the Partnership is required to disclose annually it's alignment with a set of corporate governance guidelines adopted by the Toronto Stock Exchange to assist in assessing accountability to stakeholders. The Partnership's statement on adherence to those guidelines follows.

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

Guideline 1 Board should explicitly assume responsibility for stewardship of the corporation

Does the Partnership Align? Yes

Description of Approach The Board has responsibility for the overall stewardship of the Partnership, establishing the overall policies and standards of the Partnership in the operation of its businesses and reviewing and approving its strategic plans.

Guideline 1a Board should specifically assume responsibility for the adoption of a strategic planning process

Does the Partnership Align? Yes

Description of Approach The Board has adopted a strategic planning process and meets during the year to review and approve management's strategic plan for the Partnership. Changes to the plan assumptions are considered when appropriate.

Guideline 1b Board should specifically assume responsibility for the identification of principal business risks, and implementation of risk management systems

Does the Partnership Align? Yes

Description of Approach The strategic plan process adopted by the Board also includes the review of significant risks to the Partnership and management ensures that the Board is kept informed of any changes to these risks on a timely basis.

The Audit Committee reviews the Partnership's financial and business risk policies and procedures and reports to the Board on these matters on a quarterly basis. The Board also receives and reviews reports from management on health, safety and environment on a regular basis.

Guideline 1c Board should specifically assume responsibility for succession planning, including appointing, training and monitoring senior management

Does the Partnership Align? No

Description of Approach The Board believes that the management of the Partnership is key to its ongoing success. The Corporate Governance Committee is tasked by the Board to review the Manager's key policies and procedures around management succession, training, compensation and appointment, where applicable. Under the terms of the Management and Operations Agreements, the Manager is responsible to fill the required management positions.

Guideline 1d Board should specifically assume responsibility for communications policy

Does the Partnership Align? Yes

Description of Approach The Board has put structures in place to ensure effective communications between the Partnership, its unitholders and the public. The Board, or the appropriate committee thereof, reviews the content of the Partnership's major communications to the investing public, including the quarterly and annual reports, and approves the Annual Information Form and any prospectuses that may be issued. The disclosed information is released through mailings to unitholders, news wire services, the general media and the Partnership's home page on the internet.

Guideline 1e Board should specifically assume responsibility for the integrity of internal control and management information systems

Does the Partnership Align? Yes

Description of Approach The Partnership's internal controls are monitored on a regular basis by the Audit Committee through management and the work of the internal audit department of TransCanada.

Guideline 2 Majority of directors should be "unrelated" (independent from management and free from conflicts of interest)

Does the Partnership Align? No

Description of Approach TransCanada has the right to nominate four of the seven directors under the terms of the Partnership Agreement. Notwithstanding this right, the Board unanimously determined that an additional unrelated and independent director be appointed and has fixed the Board size to eight. Under the terms of the Partnership Agreement, all transactions with TransCanada must be recommended by the Independent Directors Committee. The Board believes that a Board with equal representation of related and unrelated directors is an appropriate policy for the Partnership given the Partnership Agreement and TransCanada's substantial ownership of Partnership Units.

Guideline 3 Disclose for each director whether he or she is related, and how that conclusion was reached and that the majority of directors are 'outside' directors

Does the Partnership Align? No

Description of Approach The Board has three unrelated directors, and one vacant independent director position. The independent directors are Messrs. Felesky, Hagerman and Hobson and three related Directors, with one position vacant. Messrs. Girling, Pourbaix and Wishart, all of whom are senior officers of TransCanada and are related.

Guideline 4 Appoint a committee of outside directors responsible for appointment of new nominees and ongoing assessment of directors

Does the Partnership Align? Yes

Description of Approach A subcommittee of the Corporate Governance Committee composed of independent directors is responsible for assessing new nominees to the Board. The Corporate Governance Committee, as a whole, is responsible for assessing on an annual basis the Board performance and the performance of each member. The committee is chaired by Mr. Hobson, an independent director and is composed of a majority of independent directors. The Board believes that it is appropriate for TransCanada as the Manager of the Partnership to have a representative on this committee due to the responsibilities that have been given to the Manager through contractual arrangements.

Guideline 5 Implement a committee process for assessing the effectiveness of the Board, its committees and the contribution of individual directors

Does the Partnership Align? Yes

Description of Approach The Corporate Governance Committee is responsible to make an annual assessment of the overall performance of the Board and its individual members and to report its findings to the Board.

The Corporate Governance Committee also makes recommendations relative to the composition of the various committees of the Board.

Guideline 6 Provide orientation and education programs for new recruits to the Board

Does the Partnership Align? Yes

Description of Approach All directors are provided with an orientation binder that includes written information about the duties and obligations of directors and the business of the Partnership. An opportunity for meetings and discussions with senior management and other directors is also available. The details of the orientation of each new director is tailored to that director's individual needs and areas of interest. The Partnership funds directors' attendance at educational programs and seminars which cover various subjects directly related to the duties and responsibilities of directors.

Guideline 7 Examine size of Board, with a view to improving effective decision-making and, if appropriate, undertake a program to reduce the number of directors

Does the Partnership Align? Yes

Description of Approach The Board believes that eight directors is appropriate and is the minimum number required for the business of the Partnership.

Guideline 8 Review adequacy and form of compensation of directors to ensure compensation reflects risks and responsibilities

Does the Partnership Align? Yes

Description of Approach The Corporate Governance Committee reviews in conjunction with an independent consultant the compensation of the independent directors on an annual basis, taking into account such matters as time commitment, responsibility and compensation provided by comparable companies and income funds. No director related to TransCanada receives compensation from the Partnership for services to the Board or committees.

Guideline 9 Committees should generally be composed of outside directors a majority of which are unrelated

Does the Partnership Align? Yes

Description of Approach The Board believes that, as a matter of policy, there should be a majority of unrelated directors on each of the committees and the committees should be chaired by independent directors. The audit committee is composed solely of independent directors while the Corporate Governance Committee has one position held by a related director, reflecting the significant unitholdings of TransCanada.

Guideline 10 Appoint a committee responsible for developing an approach to corporate governance issues

Does the Partnership Align? Yes

Description of Approach The mandate of the Corporate Governance Committee includes responsibility to undertake initiatives as are needed to ensure excellence in governance.

Guideline 11 Define limits to management's responsibilities by developing position descriptions for the Board and CEO and approving corporate objectives for the CEO to meet

Does the Partnership Align? Yes

Description of Approach The Board has adopted its own terms of reference, which clarifies responsibilities and ensures effective communication between the Board and management. The Corporate Governance Committee has also been tasked by the Board to review position descriptions for the president and senior officers of the General Partner. Under the contractual agreements with the Manager, filling the positions are the responsibility of the Manager, who discharges this responsibility in consultation with the Corporate Governance Committee and the Board.

Guideline 12 Establish procedures to enable the Board to function independently of management

Does the Partnership Align? Yes

Description of Approach The Partnership Agreement provides that the Board can function separately from the Manager and management of the General Partner, as a majority of independent directors must approve all material transactions or agreements between the Partnership and TransCanada or any of its affiliates. The Board has also appointed a Lead Director whose mandate includes the responsibility to ensure the Board can function independently from the Manager, that appropriate communication links exist between the independent directors and the Partnership's senior management, and to chair meetings of the Board in the absence of Partnership management and the TransCanada representative directors.

Guideline 13 Establish an Audit Committee composed only of outside directors with specifically defined roles and responsibilities

Does the Partnership Align? Yes

Description of Approach The Audit Committee for the Partnership has defined roles and responsibilities as outlined in its charter. The committee is composed of independent and unrelated directors and is in compliance with the Audit Committee rules under Multilateral Instrument 52-110.

Guideline 14 Implement a system to enable individual directors to engage outside advisors at the corporation's expense

Does the Partnership Align? Yes

Description of Approach Independent directors have the authority to retain consultants for themselves or the Independent Directors Committee where necessary and appropriate.

EIGHT-YEAR FINANCIAL HIGHLIGHTS

(millions of dollars except per unit amounts)	**2004**	2003	2002	2001	2000	1999	1998	1997
Operational Information								
Number of plants	**11**	7	7	7	7	7	5	3
Weighted average plant availability	**97%**	96%	94%	97%	99%	94%	97%	97%
Plant output (GWh)	**2,419**	2,153	2,417	2,358	2,291	1,560	1,273	521
Revenues	**231.5**	178.0	173.9	176.2	153.9	107.5	84.3	34.0
Operating Margin (1)								
Ontario	**74.4**	75.0	69.7	69.2	64.2	57.4	49.8	20.4
Williams Lake	**23.9**	25.4	28.0	33.2	24.6	2.9	–	–
Mamquam and Queen Charlotte	**3.4**	–	–	–	–	–	–	–
Curtis Palmer	**26.9**	–	–	–	–	–	–	–
ManChief	**13.0**	–	–	–	–	–	–	–
Castleton	**8.2**	8.8	9.9	9.3	8.1	4.0	–	–
	149.8	109.2	107.6	111.7	96.9	64.3	49.8	20.4
Net Income	**100.7**	64.4	64.1	45.0	46.0	37.5	34.6	15.0
Per unit	**$ 2.25**	$ 1.64	$ 1.63	$ 1.28	$ 1.52	$ 1.48	$ 1.52	$ 0.79
Cash Flow								
Funds generated from operations	**128.2**	99.6	101.0	94.5	79.5	58.7	48.6	19.7
Per unit	**$ 2.87**	$ 2.53	$ 2.57	$ 2.69	$ 2.62	$ 2.32	$ 2.13	$ 1.03
Capital expenditures	**(14.6)**	(8.2)	(5.4)	(11.6)	(6.8)	(9.7)	(13.8)	(2.0)
Acquisitions	**(729.3)**	–	–	–	–	(110.5)	(129.2)	–
Cash Distributions	**114.4**	99.1	99.1	87.4	72.8	59.3	49.0	21.2
Per unit	**$ 2.52**	$ 2.52	$ 2.52	$ 2.49	$ 2.40	$ 2.34	$ 2.15	$ 1.11
Balance Sheet								
Plant, property and equipment	**902.4**	573.5	601.4	633.2	658.6	656.7	336.9	178.2
Power purchase arrangements	**371.4**	–	–	–	–	–	–	–
Total assets	**1,346.4**	604.7	650.5	677.3	697.4	696.3	354.3	197.8
Operating line	**–**	26.0	36.5	15.9	4.0	8.0	–	–
Long-term debt	**445.2**	–	–	–	159.4	165.7	–	–
Units Outstanding								
Weighted average for the year	**44.7**	39.3	39.3	35.1	30.3	25.3	22.8	19.1
Market Price								
High	**$ 38.00**	$ 37.10	$ 34.13	$ 32.05	$ 28.70	$ 29.40	$ 30.00	$ 30.20
Low	**$ 29.62**	$ 30.80	$ 28.75	$ 27.00	$ 20.00	$ 21.40	$ 23.95	$ 27.15
Close	**$ 35.50**	$ 36.30	$ 30.90	$ 31.75	$ 27.50	$ 24.50	$ 28.15	$ 28.10

(1) Operating margin equals revenue less cost of fuel, operating and maintenance expense and other plant operating expenses.

INVESTOR RELATIONS www.transcanada-powerlp.com

Auditors KPMG LLP, Calgary, Alberta

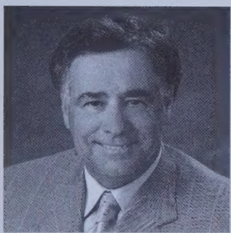
Unitholder Information TransCanada Power Services Ltd.
Direct: (403) 920-7980 Facsimile: (403) 920-2457 Toll Free: (888) 887-7717

Stock Exchange Listing Toronto Stock Exchange
Trading Symbol: TPL.UN

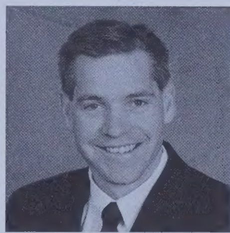
Cash Distributions Scheduled cash distribution payment dates in 2005 are January 28, April 29, July 29 and October 28.

Annual Information Form The Partnership's 2004 Annual Information Form, as filed with Canadian securities commissions, may be obtained from:
Corporate Secretary TransCanada Power Services Ltd., 450 – First Street SW, Calgary, Alberta, Canada T2P 5H1

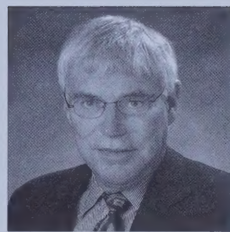
BOARD OF DIRECTORS



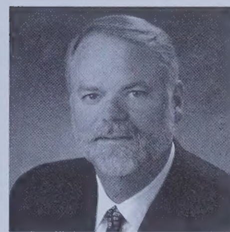
Brian A. Felesky, Q.C. (1)*(3)
Partner, Felesky Flynn
Calgary, Alberta



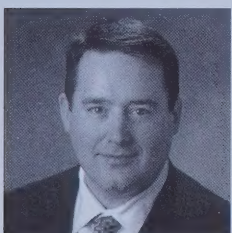
Russell K. Girling, Chairman
Executive Vice-President, Corporate Development and Chief Financial Officer, TransCanada Corporation
Calgary, Alberta



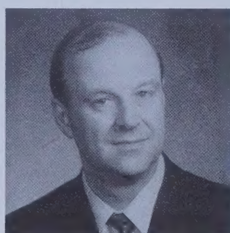
Allen R. Hagerman, F.C.A. (1)(2)(3)*
Chief Financial Officer
Canadian Oil Sands Trust
Calgary, Alberta



Eric Hobson, Lead Director (1)(2)*(3)
Partner, Northridge Canada
Calgary, Alberta



Alexander J. Pourbaix (2)
Executive Vice-President,
Power, TransCanada Corporation
Calgary, Alberta



Donald M. Wishart
Executive Vice-President,
Operations and Engineering,
TransCanada Corporation
Calgary, Alberta

(1) Audit Committee
(2) Corporate Governance Committee
(3) Independent Directors Committee
* Committee Chair

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OUR MISSION To be Canada's premier income fund, providing a growing, stable cash distribution to our unitholders. We will accomplish this by applying superior operating and commercial management practices to a quality portfolio of energy assets.

TransCanada Power, L.P.